

'German Question' Dominates Agenda For East and West

By Robert J. McCartney and Jim Hoagland
Washington Post Service

BONN — As the democratic flood tide in Eastern Europe erodes the barriers that have divided the European continent since World War II, the prospect that a reunified Germany will emerge has suddenly come to dominate the international agenda at the opening of a new era in East-West affairs.

The "German question" led to the calling of an emergency European Community summit meeting Nov. 18; it has helped speed the pace of plans for West European economic integration, and it will be at the heart of the summit meeting off Malta next weekend between President George Bush and President Mikhail S. Gorbachev.

Ahead of the Malta talks, Chancellor Helmut Kohl is reported to be preparing a lengthy memorandum for Mr. Bush that calls attention to the danger to stability that the upheaval in Eastern Europe represents, and to the need for renewed superpower commitments to nonintervention.

In another sign of Germany's central importance now, Mr. Bush invited Mr. Kohl to dine with him in Brussels on Dec. 3 immediately after the two-day Malta meeting, Bonn sources said. They said this would make Mr. Kohl the first West European leader to be briefed

on the talks by Mr. Bush, who is scheduled to meet with other allied leaders in Brussels on Dec. 4.

But top West German officials now fear that the reunification debate is spinning out of the control of high-level diplomacy. The East German public may begin clamoring for reunification unless its government moves fast enough to adopt political changes.

Demonstrators in Leipzig chanted "Germany, united fatherland!" last week in what could be the start of a popular movement that would upset the efforts of all governments involved to handle the issue under the most stable, controlled conditions possible.

A high-ranking Bonn source said that if East Germany did not "get a convincing leadership, ready for fundamental reforms," protests could turn violent and increasingly focus on calls for reunification.

The East German situation is extremely fluid and uncertain, and the Bonn sources predict that Egon Krenz, the Communist party leader, will be removed at the extraordinary party congress next month.

Mr. Krenz is likely to be replaced by the more progressive prime minister, Hans Modrow, the sources said, but there are major questions as to whether even Mr. Modrow is prepared to go far enough to meet popular demands for democracy.

In particular, it remains unclear

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Risk for Gorbachev: A Contagious Virus

By Michael Dobbs
Washington Post Service

MOSCOW — The upheavals sweeping Eastern Europe have undefined a historical irony that could have important political repercussions in the coming months. The leader of perestroika has been overtaken by many of his followers.

Perestroika, or restructuring, was begun by President Mikhail S. Gorbachev as a revolution from above. But today, as hard-line

sign policy, the East European political balance of forces has shifted decisively in favor of the reformers.

But the unraveling of the Soviet Union's East European empire also poses dangers for Mr. Gorbachev. The spectacle of Poles, Czechoslovaks and Hungarians being allowed to go their own way could stoke up separatist sentiment among Lithuanians, Georgians and other Soviet minorities. The disintegration of the one-party state in East Germany and Hungary could encourage similar expectations within the Soviet Union.

In recent speeches, Mr. Gorbachev has seemed at pains to make the point that the Soviet Union and its allies differ greatly in their economic possibilities, historical traditions and political culture.

"It's up to every nation to set the pace of reform," he said at a conference of Soviet students last week. "A society cannot embark on it unless it is ripe for change."

While demonstrators in East Berlin and Prague were chanting slogans demanding an end to Communist Party rule, Mr. Gorbachev

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Waiting their turn to speak at Sunday's protest rally in Prague are, from left, Alexander Dubcek, Vaclav Havel and Ladislav Adamec.

Deeper Arms Cuts Possible, Cheney Says

By Patrick Tyler
Washington Post Service

THE HAGUE — Defense Secretary Dick Cheney said Sunday that the rapid "erosion" of the Soviet military threat in Europe made it possible for the United States, in concert with its NATO allies, to consider deeper cuts in U.S. forces in Europe than those now under negotiation in Vienna.

Mr. Cheney, speaking to reporters accompanying him to a meeting of NATO defense ministers in Brussels this week, encouraged Soviet leaders to make even greater reductions in Soviet forces based in Eastern Europe than those required under the uncompleted Conventional Forces in Europe treaty.

Mr. Cheney strongly implied

U.S. Expects Soviets To Push Naval Cuts

U.S. officials see the steady withdrawal of Soviet nuclear-powered or nuclear-armed naval vessels from the Mediterranean as a strong indication that Mikhail S. Gorbachev will press for bilateral constraints on naval armaments during his meeting with President George Bush. (Page 5)

leaders have been predicting for weeks: that the rapid disintegration of the Soviet-led Warsaw Pact alliance is outstripping the conventional arms control process.

The talks in Vienna, which President George Bush hopes to conclude next year, would require an "asymmetrical" reduction by the Soviets. They would surrender their long-held 2-to-1 manpower advantage and even greater advantage in tanks and armor over the North Atlantic Treaty Organization.

Under this accord, about 300,000 Soviet troops would be withdrawn in return for a U.S. reduction of 30,000 from NATO.

Once balanced, the two sides would begin a new round of talks that could take another one to two

years, according to administration officials.

"We have to be flexible and adaptable enough," Mr. Cheney said, "to respond to the kind of developments we see under way in Europe."

He emphasized several times that the United States should "aggressively pursue" the current Vienna negotiations, and added, "if we can further encourage the Soviets to withdraw troops from Eastern Europe, to go below the levels currently contemplated, that's a very positive kind of development."

Mr. Cheney said a U.S. response to such a Soviet move would "have to be worked out with the allies."

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Prime Minister Vows to Push Czech Demands

Adamec Meets Opposition As National Protests Grow

By Blaine Harden
Washington Post Service

PRAGUE — Prime Minister Ladislav Adamec, scrambling to keep up with a mass democratic movement that is growing larger and more willful by the day, met with opposition leaders here Sunday and addressed a pro-democracy rally attended by 300,000 people.

Mr. Adamec promised he would meet again on Tuesday with members of the opposition group Civic Forum. He also said he would present the forum's demands, which include calls for a free press, the release of more political prisoners and a parliamentary investigation of police brutality against protesters on Nov. 17, to the emergency party meeting.

On Sunday evening, the party Central Committee convened its second such session in three days. The meeting came after the removal of seven members of the Politburo on Friday, along with promises of movement toward elections, failed to satisfy protesters.

The prime minister shared a platform at Sunday's demonstration with Alexander Dubcek, the father of the "Prague Spring" that was crushed by Soviet-led Warsaw Pact tanks in 1968, and with Vaclav Havel, the dissident leader.

"The dialogue has begun," Mr. Havel said in his introduction of Mr. Adamec, a 63-year-old career Communist who has moved much faster than any of his colleagues in the senior Communist leadership to embrace change.

[The party leader, Karel Urbánek, recommended late Sunday that the party hold an emergency congress on Jan. 26 to discuss the political crisis, Agence France-Press reported.]

[The official CTK news agency said that Mr. Urbánek made the proposal at the emergency meeting of the Central Committee, which was also due to discuss further "changes of executives."]

[The head of Czechoslovakia's only labor union federation, Miroslav Zavadil, resigned from the Politburo on Sunday, CTK reported.]

The prime minister was greeted with the rhythmic chanting of his name and the warm applause from a crowd that was bundled in heavy winter clothes and standing on a windy, snow-covered parade ground in central Prague.

"Today is too time for prestige controversies and animosities," Mr. Adamec said. "People will judge us according to what extent we overcome the past and unite on what the majority of citizens require. There is a basic agreement about the acceleration of all reforms."

It did not take long, however, before the prime minister lost the

A young Prague policeman tries to explain the brutality. Page 7.

goodwill of a crowd that has grown unaccustomed in the past week to be told what to do by government leaders.

Referring to a two-hour general strike that the Civic Forum has organized for Monday, a strike that is expected to receive broad support across this country of 15 million people, the prime minister said: "I am convinced that to express an opinion it is not necessary to strike for two hours. A few minutes are sufficient."

With this statement, cheers turned to jeers. To the chanting that has been a tradition of the demonstrations here, the crowd shouted, "Not Sufficient! Not Sufficient!"

Later, when Mr. Adamec said "it is necessary to reduce tension in society, to put an end to strikes and demonstrations," the jeers and boos became deafening. "Shame! Shame!" the crowd chanted. At that moment, state television, which in the past three days has undergone a radical conversion to the side of the demonstrators, focused on a sign in the crowd that said: "Czechs Hold Out. Don't Believe Empty Promises."

Mr. Adamec resigned as prime minister on Friday after apparently being forced out of the ruling pre-

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Aoun Will Be Deposed, New President Warns

By Nora Boustany
Washington Post Service

CHTAURA, Lebanon — President Elias Hrawi, vowing that he would rule from the ruins of the Baabda presidential palace, warned Sunday that Major General Michel Aoun would be deposed as the Christian army commander within 48 hours, by force if necessary.

Mr. Hrawi said he would not tolerate two governments in Lebanon and served notice that General Aoun "will not be army commander for more than 48 hours" and that if he chooses to stay with the armed forces, he will be "no more than an officer."

The president's 14-member cabinet, formed on the weekend, considered a list of names to select a new commander in chief as its first practical measure toward deposing General Aoun.

"I hope that General Aoun will

make a decision as a Lebanese patriot and that he will opt for a clash, because East Beirut will have to suffer the consequences," Mr. Hrawi said from his temporary office at the Park Hotel in Chtaura, a market town in the Syrian-controlled Bekaa Valley.

General Aoun, responding promptly in an interview with Radio Monte Carlo, said, "We are ready for resistance and have prepared ourselves for the worst."

"We find ourselves faced with a choice that is not made by a reasonable man but by someone who has lost his mind," General Aoun said, adding that military forces had started gathering in areas facing the Christian enclave that he controls.

Mr. Hrawi, 62, elected Friday, only two days after a bomb explosion killed his predecessor, René Moawad, implied that General Aoun would be the one to trigger a

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Ease Up on Japanese, A U.S. Industry Asks

By James Sterngold
New York Times Service

TOKYO — After five years of prodding the U.S. government to negotiate to open Japan's financial markets, American securities firms are now discouraging U.S. officials from such an activist role for fear of losing what little they have won.

Indeed, one of the ironies of the modest opening of Japan's markets is that it has given the foreign firms that have gained entry a taste of how much the cartel-like arrangements and fixed commissions here can be for those on the inside. They do not want to give up the privilege so quickly.

The hands-off attitude marks a difference from that of other American businesses active in Japan, many of which are frustrated by their attempts to break into the Japanese market. Many of these other businesses have endorsed the tough approach being taken in the Structural Impediments Initiative, a major market-opening attempt by U.S. negotiators.

It also differs from the increasingly tough approach some top U.S. officials are espousing, in response to the top-sided advantages that Japanese financial companies have in expanding in the United States.

For instance, in an unusually direct speech delivered at a conference in Tokyo last month, E. Gerald Corrigan, the president of the Federal Reserve Bank of New York, warned that there could be a sharp backlash in the United States if Japan did not provide reciprocal opportunities to foreigners in its financial markets.

David C. Mulford, U.S. undersecretary of the Treasury, sounded a similar theme earlier this month after the latest round of financial talks between the two sides. He exhorted the Japanese to pick up the pace of financial liberalization.

But the major American securities firms are now making money in Japan, having won some of the key openings they

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Gandhi Majority Appears Lost

Early Vote Results Indicate Coalition Will Be Needed

By Barbara Crossette
New York Times Service

NEW DELHI — Prime Minister Rajiv Gandhi and his Congress (I) Party appear to have lost their majority in the Indian Parliament and will be out of power unless they form a coalition government, according to early results of the national election that ended Sunday.

With no party likely to win a clear majority, both Congress (I) and the opposition National Front alliance are claiming the right to try to form a government.

Indians delivered an almost totally negative verdict on their leaders, voting against the Congress (I) Party where it was strong, primarily in the north, and against opposition parties in power in southern states. Several ministers and the Congress (I) speaker of the Lok Sabha, the lower chamber, have been defeated, in what a politician called "an anti-establishment vote."

A new Hindu political force has emerged from the voting. The rightist Bharatiya Janata Party,

which won only two seats in 1984, was leading in more than 70 contests this year, sweeping two-thirds of the seats in one state, Madhya Pradesh, and taking a lead in Rajasthan, Gujarat and New Delhi.

At 2 A.M. on Monday, with 62 of 525 seats declared, Congress (I) had 26 seats; Janata Dal, the leading opposition party, had 16; and the Bharatiya Janata Party, 9. Several other parties, including the Communist Party of India-Marxist, split the remainder. Vote counting is slow because all ballots are tabulated manually.

The final results will not be known until Tuesday, when ballots have been counted from stations for which new voting was ordered for Monday and from three areas that voted on Sunday: Punjab, Sikkim and part of Bihar.

The election was the most violent in India's 42 years of independence. More than 120 people have died in the past five days.

Voting at more than 1,100 polling stations has been declared invalid because of fraud, and new polls ordered.

Mr. Gandhi's own contest in Amethi was marred by rigging and violence, forcing new voting in 97 places in his constituency. It will not be known until late Monday whether the prime minister has retained his own seat.

If he does win, Mr. Gandhi will have to find allies in the next few days of hectic bargaining or give up his office, ending a family dynasty that has been in power for all but a few years since independence in 1947.

Computer analyses of voting trends indicate that Congress (I) will win 190 to 200 seats in the lower house, well short of the 263 needed for an absolute majority of the 525 contested seats. The remaining 20 seats in what will be a 545-member house will be decided later. One state, Assam, will vote in January.

Under India's British-style parliamentary system, the party or parties with a majority in the lower house form a government and name a prime minister.



A worker carrying a stack of ballots as vote-counting in the three-day general election began in New Delhi under heavy security.

Crack Sellers' Dream Streets Turn Into Mean Streets

By Gina Kolata
New York Times Service

NEW YORK — The crack business, it turns out, is a modern version of a 19th-century sweatshop.

Despite the popular notion that crack sellers all drive Mercedes-Benzes and wear gold jewelry, most of the people in the business work around the clock for low real wages in an atmosphere of physical threat and control.

Their pay is often docked if they arrive late; they may be shot or maimed if they are even perceived as trying to cheat their employers, and many fall into such debt to them that they have to go into hiding.

Even the few who scratch their way up to the second rung of the broad-based pyramid of the crack distribution system candidly admit that their lives are dismal. On the streets or vacant lots or in the doorways or buildings where crack is sold, people speak of a financial picture far removed from the one they had hoped for and even further from what the world at large believes to be true.

Social scientists and others who have studied the workings of the crack trade describe a kind of shimmering lure, lives built on myth and self-deception; the reality all too often ends in prison, violent injury or death.

Stephen Kessler, an anthropologist at the University of Colorado Medical School, who

is studying the lives of drug dealers, said: "I go into their homes in the housing projects and they have nothing there."

Their neighbors and acquaintances are skeptical of their pretensions, he said. "I was talking to two users the other day," he said, "and a guy came up to me and said, 'I made \$250 last night.' They looked at me and said, 'In his dreams.'"

Some low-level participants may earn as little as \$20 or \$30 for a day spent selling crack or keeping an eye out for the police, undercover agents or people who appear suspicious.

In East Harlem, a seller who gets caught by his distributor trying to steal a little crack can get a kneecap shot. In the Williamsburg

section of Brooklyn, retribution is usually a severe beating.

Although the drug business is brutal, new recruits keep appearing. One reason is the persistent myths about opportunities. People on the streets who have bought and sold drugs and know the truth tell each other there is money to be made, that continuing poverty is just bad luck. They put on airs, fake courage. They bluff. Deep down they are afraid.

Huddled in a gray ski jacket on a recent blustery night in Brooklyn, Peter B. said he had just completed nine months in prison for selling drugs, which he said he bought from a

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Kiosk

Swiss Choose To Keep Army

BERN (AP) — Swiss voters have rejected a proposal to abolish the country's 625,000-member army by the year 2000. The constitutional amendment was favored by 55.6 percent of those who voted Sunday. Opposed were 44.4 percent.

Polls had predicted the proposal would win a maximum 30 percent support. Voter turnout was 69 percent, the highest for a referendum since the 1971 measure that gave women the right to vote.

MONDAY Q&A



Prime Minister Steingrims Hermannsson of Iceland says European trade blocs are moving toward more cooperation. Page 2.

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President Frederick W. de Klerk ruled out the possibility of a multiracial interim government for Pretoria. Page 2.

Business/Finance

There is little risk of a U.S. recession, an OECD study has found. Page 13.

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European Free Trade Group Pursues Stronger Links to EC

Steingrímur Hermannsson, the prime minister of Iceland, is the current president of the European Free Trade Association, which comprises Austria, Switzerland, Sweden, Norway, Finland and Iceland. Ministers from the trade association and European Community countries will meet next month to plan closer economic links as the community moves toward a post-1992 single market. Earlier this month, Mr. Hermannsson and President François Mitterrand of France, who currently holds the EC presidency, met in Reykjavik. Mr. Hermannsson talked to *Reynald Dale of the International Herald Tribune*.

Q. Do the dramatic changes in Eastern Europe make it more urgent to work out a new relationship between the EC and the EFTA?

A. We discussed this at the meeting with President Mitterrand, and we agreed that the question of Eastern Eu-

rope has to come after the EC and EFTA have reached a conclusion on their plan for a single West European economic space, an area free of economic barriers. Of course, Eastern Europe will develop during this time and all our countries are

MONDAY Q&A

prepared to assist in that development. But any kind of negotiations with East European countries — or for example a bid by Hungary to become a member of EFTA — would have to wait until we see this matter between the EC and EFTA through.

Q. Is it possible that Hungary, and perhaps Poland, could join the EFTA? A. Well, it is fully agreed that the EC and EFTA, the countries involved in the future European economic space, will very seriously look at any such possibilities. The difference, of course, is that the EFTA countries and the EC countries are on approximately the same footing economically: they have similar living conditions and so on. Dealing with the East

European countries is a completely different matter and is more or less a one-way street.

Q. Have any East European countries actually approached EFTA? A. Hungary expressed an interest in taking part in West European economic integration during a recent visit there by our foreign minister. They specifically mentioned EFTA, realizing, of course, that it would be much easier for them to become a member of EFTA than the EC at this particular time. But I felt their future interest might be in the EC.

Q. What other countries might be in that position? A. We know there is interest from Poland but I don't think this has been stated so formally. And Yugoslavia has for some years shown interest in cooperation with EFTA.

Q. What does EFTA want from the EC?

A. We have had joint working groups looking at the four freedoms: freedom of trade, capital movements and services

and free movement of people. And a fifth group looked at the legal and institutional organization necessary for a European economic space to function properly.

This intensive work has not brought out any major difficulties on EFTA's side as such. EFTA is prepared to enforce all those different freedoms. But there are reservations from individual countries — for example from Iceland, because of the very great difference in our economy.

The most difficult part is the legal and institutional framework, where there is a great difference between EFTA and the EC. While the EC has given very extensive powers to Brussels, we have rejected supranational institutions. So the decision-making process will be a rather complicated matter. But after informal discussions, the conclusion was that this problem will be solved, too.

Q. Isn't it difficult for EFTA to speak with one voice when the member countries are so different?

A. Of course it is. In the summer of 1988 many of us thought that EFTA was

disintegrating. But after the policy statement by Jacques Delors, president of the EC Commission, in January of this year, when he suggested that EFTA and the EC should sit down and map out the road to an economic space as two independent organizations, the EFTA countries were more or less forced to get together again.

Q. There's often been opposition to Iceland's membership in the North Atlantic Treaty Organization in the past. How's the feeling about that now?

A. I would say NATO membership has strong support in Iceland. We feel that NATO is on the right track. Even those who were skeptics before, I think, are more pleased now and I don't think we should rock the boat at this particular time.

Q. What about Mikhail S. Gorbachev's proposal that both the Warsaw Pact and NATO should be dismantled?

A. I can't deny that that is seen very favorably in Iceland. But we realize that the process is very complicated and will need time.

De Klerk Rejects Interim Multiracial Government

By William Claiborne

Washington Post Service

PRETORIA — President F. W. de Klerk, making clear that his white government intends to keep firm control of any negotiations on power sharing, has ruled out the possibility of a transitional multiracial government while a new constitution is being drafted.

Mr. de Klerk, in an interview, rejected a core negotiating position presented by the African National Congress, the main black nationalist group fighting the government. The ANC has proposed a multiracial interim government during a constitution-drafting process for a new political order.

"We are not prepared to move into a situation where a lawfully elected government will be suspended and interim governments will come about," Mr. de Klerk said. He added, however, that once a new constitution is negotiated under the supervision of the current white government, the existing au-

thority in Pretoria will have to give way to a new government.

In the interview — his first with a newspaper since he became president in September — Mr. de Klerk repeatedly sought to lower what he said were unrealistic expectations, especially in the United States, that have been generated by the flurry of revisions he has carried out. He said that whatever new political order evolved from negotiations, power in South Africa would be shared on the basis of racially defined groups and not according to the principle of majority rule.

Mr. de Klerk also ruled out the possibility that his government would repeal the apartheid law, which categorizes every South African in a racial group at birth. He said the race law was "fundamentally tied" to the existing constitution and that its repeal would have to go hand in hand with the writing of a new constitution.

If the government repeals the 1950 Population Registration Act, which black nationalists regard as

the cornerstone of the system of racial separation, "we would not be able to hold an election because voters' rolls are at the moment compiled from that," he said.

While conveying a sense of urgency in ending the domination of South Africa's 23 million blacks by the 4.5 million whites, Mr. de Klerk said expectations by some U.S. officials of an overhaul of South Africa's political system as early as next June were unrealistic.

"I think we are involved in a process," he said. "I don't think you can put a time scale to it. If there is a conception that we will have a final solution in six months, I think that's an expectation we cannot deliver."

Mr. de Klerk's rejection of the ANC's negotiating guidelines, adopted by the movement's leadership on Aug. 10 and endorsed last month by an Organization of African Unity conference in Zimbabwe, appears to present a major stumbling block to the opening of negotiations to end racial conflict.

The ANC proposes a process that would include a mutual "cease-fire," formation of an interim government to oversee the transition to a nonracial political system and negotiations on a new constitution. The plan also calls for talks on the role of the international community in assuring a successful transition to democratic rule.

Mr. de Klerk ruled out any international participation in such a process. Besides rejecting the notion of a transitional government, he said, "The setting up of preconditions is retarding the process of real negotiations."

Mr. de Klerk said the release of Nelson Mandela, the imprisoned ANC leader, was under "constant consideration." He declined to say when Mr. Mandela would be freed, but he said there was a place in negotiations for him "and other leading figures in radical organizations, including the ANC," who were committed to peaceful solutions.

The president tacitly acknowl-

edged that some of his cabinet ministers had been discussing the subject of negotiations with Mr. Mandela, although he declined to be specific about the contacts.

Asked whether he planned to meet with Mr. Mandela himself, Mr. de Klerk replied, "I wouldn't announce it if I had any plans in advance."

■ **Two Slain in Transkei**
Police teargassed veteran black leaders in the black South African homeland of Transkei on Saturday and two persons were shot to death, Reuters quoted the South African Press Association as saying.

Major General Bantu Holomisa, the military ruler of the rural borderland, blamed "renegade" police officers for the teargassing at a church hall in the capital, Umtata.

Four elderly ANC activists, including Walter Sisulu, 77, Mr. Mandela's closest colleague, escaped unharmed, but two unidentified people died of gunshot wounds. The agency did not elaborate on the shooting.

More AIDS In Women Is Predicted

By Barry James

International Herald Tribune

PARIS — AIDS in the 1990s is increasingly likely to afflict women, with disastrous consequences for society as the disease is transmitted to a generation of babies, Jonathan Mann, director of the World Health Organization's global program on AIDS, said Sunday. On the eve of a major conference in Paris on the implications of AIDS for mothers and children, Dr. Mann said that in some regions, the proportion of women with AIDS was likely to equal or even exceed that of men.

Of the 600,000 victims of acquired immune deficiency syndrome reported to date, 150,000 have been women, Dr. Mann said. Of the 500,000 additional cases expected to develop in 1990 and 1991, about 200,000 will be women, most of them of child-bearing age.

The ratio of male to female AIDS victims is not evenly distributed, Dr. Mann said. In sub-Saharan Africa, where it is heterosexually transmitted, about half the victims are women.

In the United States, the ratio has been about five men to one woman, but newly reported cases include a higher proportion of women, who have become infected through their own drug use or through sexual contact with male drug users.

In the English-speaking Caribbean, AIDS was mostly confined to homosexuals in the early 1980s but now men — a trend that Dr. Mann said was increasingly likely to become apparent in the developed world.

"The point is that, quite simply, in relative terms, AIDS is becoming an increasing problem among women," he said.

"In the world, health and more broadly social policy is being made by men for men," he said. "When you look at the gap between the rhetoric about the importance of children and the sanctity of motherhood and compare that with the resources given to the health of mothers and children you really come to the conclusion that their health concerns are of a lower priority worldwide, and AIDS is no exception."

The conference, organized by the World Health Organization and the French government, will bring together 40 health ministers and 600 specialists for four days of discussion about the problem. The issue is still relatively unexplored compared, for example, with the study of AIDS and homosexuality in Western societies.

Dr. Mann said it was appropriate that the last major conference in the decade of AIDS should be dedicated to the situation of women and children.

"It is a serious problem and it needs the kind of emphasis that a conference like this will provide," he said. He added that he hoped it would finally dispel the idea that AIDS is primarily a disease of homosexuals and intravenous drug users who share infected needles.

"We have lived through a decade of AIDS," Dr. Mann said, "but we have not yet lived through the period of denial that leads people to feel that this is not their problem, and that it does not concern them."

The World Health Organization estimates that of the six million people reported to be infected with human immunodeficiency virus, or HIV, and who eventually are likely to contract AIDS, about one-third are women. From 20 to 40 percent of their children will be born with HIV infection.

Not only will these children quickly develop the disease, Dr. Mann said, but the loss of their parents to the disease may mean there is no one left to care for them.

Already, about 1 percent of the mothers giving birth in Paris hospitals have the HIV infection, Dr. Mann said. In New York City, about 3 percent of mothers have the infection and this means that there will be 50,000 to 100,000 AIDS orphans in the city in a single generation, he said. In Kampala, the Ugandan capital, nearly a quarter of all mothers are infected and infant mortality rates have nearly doubled as a result of the disease.

Dr. Mann said AIDS was gaining momentum in areas that already were seriously affected and spreading to such new areas as Eastern Europe, West Africa and parts of Latin America and Asia.

Pakistanis Query 35 Over Bomb

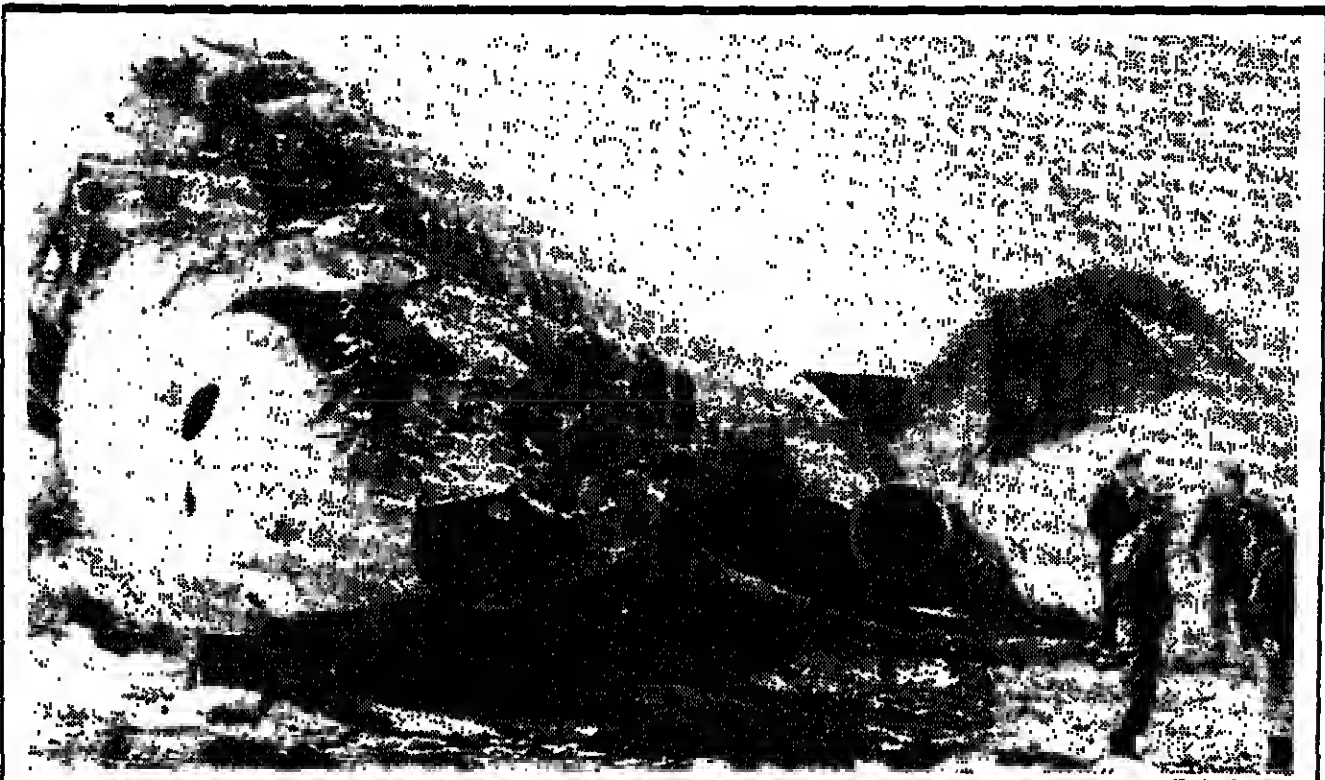
Compiled by Our Staff From Dispatches
KARACHI, Pakistan — Pakistani investigators said Sunday that they were questioning more than 35 persons about the faulty time bomb removed from a Saudi jet after a bizarre extortion attempt.

Those being questioned included 11 Pakistanis who were on the Boeing 747 when it was diverted to Karachi during a flight Thursday night from Islamabad to Riyadh with 339 people aboard, the authorities said.

An official of Pakistan's Federal Investigation Agency said that officers being questioned were officers of the Islamabad airport security force, the civil aviation authority and Pakistani staff members of Saudia, the Saudi Arabian airline.

A loose wire prevented what experts described as a "dynamic-in-cordary device" from exploding about half an hour after the plane took off from the Pakistani capital. Saudia headquarters in Jeddah said that Flight 367 had been diverted after the Islamabad airport security force received an anonymous note saying there were "explosives and a terrorist to blow up the plane." The note demanded \$15 million in ransom, officials said.

The police said they could not explain why the bomber would demand ransom when the device was set to go off automatically. (AP, Reuters)



CRASH IN SEOUL — Security personnel inspecting the wreckage of a Korean Air Lines jet that crashed on takeoff Saturday at Gimpo airport in Seoul and caught fire, injuring 21 persons. The Fokker F-28, which had 54 people on board, was about 10 meters off the ground when the right engine lost power and the right wing dipped and clipped the ground, an airline spokesman said.

LEBANON: President Warns Aoun Will Be Deposed as Army Leader

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major confrontation if he did not step down.

"We are not here to launch another war," Mr. Hrawi said. "If there is another blowup, it will not

be up to the president or the government. In case it should happen, it will be a matter of hours to finish off all those who do not represent legality."

As anxiety rose over prospects of a showdown, members of the par-

liament said the 48 hours would still give a chance for mediation and diplomacy to diffuse the crisis with General Aoun, who has refused to recognize Mr. Hrawi's election by a parliament he declared dissolved on Nov. 4.

Mr. Hrawi denied, however, that there was any mediation under way.

He said he would take office in the presidential palace in the suburb of Baabda, a ruin of a building beneath which General Aoun is living with advisers and army officers in a fortified bunker.

The Christian Maronite president vowed that he would move into "whatever remains of Baabda, even if only a room is left standing."

Forty-three Lebanese legislators gathered in Chataura, about 40 kilometers (25 miles) east of Beirut, and unanimously approved a government platform that promised to work toward "eliminating the current state of partition and all appearances of illegality."

■ **Thrust Toward Baabda**
A Muslim deputy said the Syrian-backed government was contemplating a direct thrust at the Baabda palace, not an invasion of the entire Christian enclave in East Beirut, Reuters reported from Chataura.

Parliamentary sources said Mr. Hrawi's cabinet had delayed an overt move against General Aoun at the request of unnamed mediators. A formal decree dismissing him as army commander was postponed until Tuesday.

Both sides reported that Syria was concentrating troops near the line that runs through Beirut and encloses about a quarter of the country.

General Aoun inherited power in the Christian enclave when the presidency was vacant for more than a year. The post was filled on Nov. 5 by the election of Mr. Moawad under an Arab League peace plan, which has received wide international support.

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WORLD BRIEFS

Bulgaria to Disband a Police Unit

VIENNA (Reuters) — The new Communist leadership in Bulgaria has announced plans to disband a feared secret police unit that was used to spy on dissidents under the former rulers.

The Communist Party newspaper Rabotnichesko Delo said Sunday that the Interior Ministry would abolish its "sixth department," a unit that led "the struggle against ideological diversion."

Members of the growing opposition movement said that the department was used by Todor Zhivkov, the former hard-line party leader, to spy on dissidents, many of whom were harassed, imprisoned or expelled from Bulgaria for daring even to discuss change.

Polls Indicate Thatcher in Difficulty

LONDON (Reuters) — Opinion polls indicated Sunday that Prime Minister Margaret Thatcher of Britain was facing political trouble.

Polls published by The Sunday Times and Observer newspapers indicated that the Conservative Party's popularity was at its lowest point in nine years.

The Sunday Times poll showed the opposition Labor Party 14 points ahead of the Conservatives, with 51 percent support. It was Labor's biggest lead since 1980. The Observer poll also gave Labor a 14-point lead, but with 47 percent support overall.

Uruguayans Are Electing a President

MONTEVIDEO (Reuters) — Uruguayans voted Sunday in their first fully democratic elections in 18 years, with some casting ballots for former guerrillas, political prisoners and others who suffered under more than a decade of repression by the armed forces.

Opinion polls gave the presidency to Luis Alberto Lacalle of the National Party, the main opposition party. But the Broad Front, an alliance of small parties ranging from the Christian Democrats to the Communists, was expected to take the city council of Montevideo, home to half the country's 2.9 million population.

President Julio María Sanguinetti, who steps down on March 1, took over from a military junta after his Colorado Party won elections in 1984 from which many leftist leaders and political groups were banned.

U.S. May Cut FAO Funds in Dispute

UNITED NATIONS, New York (NYT) — The United States will drastically cut funds to the Rome-based UN Food and Agriculture Organization if the agency agrees this week to cooperate with the Palestine Liberation Organization on agricultural development in the Israeli-occupied West Bank and Gaza Strip, administration officials say.

For the first time, Arab members have introduced a resolution in the agency's governing general conference calling on the organization to "provide the Palestinian people with the assistance necessary for their economic development in close cooperation with the Palestine Liberation Organization." A vote is scheduled Monday.

U.S. officials say they strongly oppose the resolution, arguing that it amounts to "massive politicization" of a technical UN body charged with promoting agriculture in the developing world.

Ukrainian Catholics Protest in Lvov

MOSCOW (Reuters) — Tens of thousands of people carrying portraits of Pope John Paul II marched through the western Ukrainian city of Lvov on Sunday demanding the legalization of the Ukrainian Catholic Church, local activists said. In contrast to other recent demonstrations in Lvov which ended in clashes with the police, the authorities made no attempt to stop this march.

"It was just a sea of people," said a Lvov human rights activist, Bogdan Gorin. The march followed a two-and-a-half hour outdoor prayer service organized by the underground church, some of whose members spent years in prison for their beliefs.

The protest took place only days before the Soviet leader, Mikhail S. Gorbachev, goes to Rome, where he will meet the pope. Ukrainian Catholics hope the meeting will result in recognition of their church, banned by Stalin in 1946.

Israelis Lift Curfew on the West Bank

JERUSALEM (Reuters) — Israeli troops lifted curfews on Sunday for more than 14,000 Arabs in the occupied West Bank after making scores of arrests, residents and the army said.

The army said that over the weekend soldiers rounded up 72 Palestinians and seized axes, iron bars and other potential weapons in the Tulikarm refugee camp. Palestinians said 120 people were arrested in the sweep, which they said also covered the town of Tulikarm and nearby Nur Shams refugee camp. Curfews imposed on Saturday were lifted.

Military officials had no comment on the timing of the raid, two weeks before the second anniversary of the start of an Arab uprising against Israeli rule in the West Bank and Gaza Strip. Palestinian activists have said they plan widespread unrest to mark the Dec. 9 anniversary.

TRAVEL UPDATE

Egypt and Syria May Resume Flights

CAIRO (AFP) — The national airlines of Egypt and Syria are to resume direct flights between Cairo and Damascus in the coming days, according to Farouk Abu Issa, secretary-general of the Arab Lawyers Union.

Only two foreign carriers, Austrian Airlines and Yemen Arab Airlines, provide direct flights between Cairo and Damascus.

This Week's Holidays

Banking and government offices will be closed or services curtailed in the following countries and their dependencies this week because of national and religious holidays:

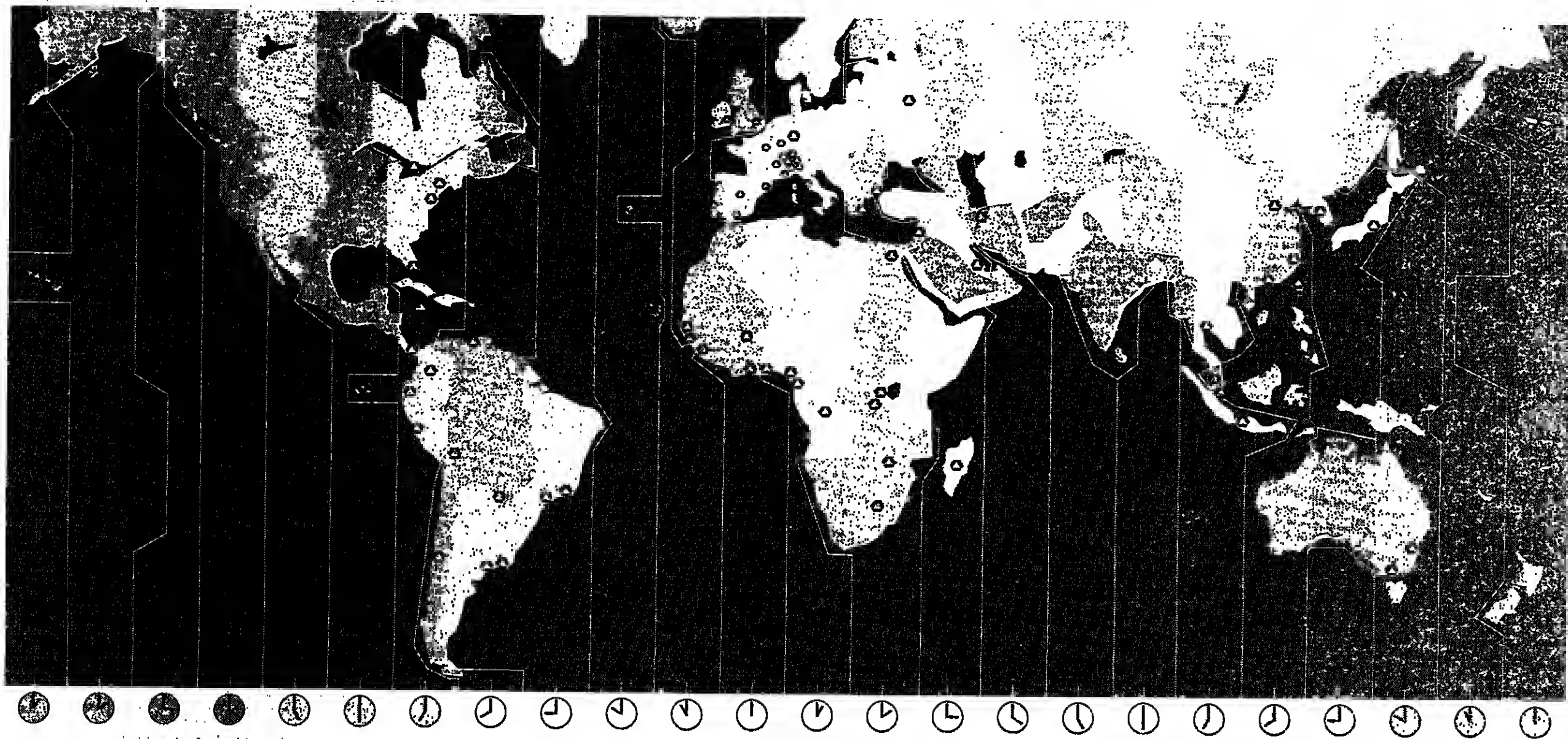
TUESDAY: Albania, Chad, Panama.
WEDNESDAY: Albania, Liberia, Yugoslavia.
THURSDAY: Barbados, Benin, Philippines, South Yemen, Yugoslavia.
FRIDAY: Central African Republic, Macao, Portugal.
SATURDAY: United Arab Emirates.

Source: Morgan Guaranty Trust Co., Reuters.

WEATHER

EUROPE				ASIA			
	HIGH	LOW			HIGH	LOW	
Amsterdam	13	8	F	Bangkok	22	25	F
Antwerp	11	7	F	Beijing	12	25	F
Athens	13	9	F	Hong Kong	24	28	F
Berlin	11	7	F	Manila	24	28	F
Birmingham	11	7	F	New Delhi	24	28	F
Bombay	24	28	F	Shanghai	12	24	F
Brussels	11	7	F	Singapore	24	28	F
Cairo	24	28	F	Southeast Asia	24	28	F
Cardiff	11	7	F	Taipei	24	28	F
Chengdu	12	8	F	Tokyo	12	25	F
Copenhagen	11	7	F				
Dublin	11	7	F	AFRICA			
Edinburgh	11	7	F	Algiers	24	28	F
Geneva	11	7	F	Cairo	24	28	F
Hamburg	11	7	F	Conakry	24	28	F
Harbin	12	8	F	Dakar	24	28	F
Helsinki	11	7	F	Libreville	24	28	F
Istanbul	11	7	F	Nairobi	24	28	F
London	11	7	F	Paris	12	25	F
Lyon	11	7	F	Porto	24	28	F
Moscow	11	7	F	Rabat	24	28	F
Munich	11	7	F	Sao Paulo	24	28	F
Nairobi	24	28	F	Seoul	12	25	F
Osaka	12	8	F	Taipei	24	28	F
Paris	11	7	F	Tokyo	12	25	F
Prague	11	7	F				
Rangoon	24	28	F	LATIN AMERICA			
Rio de Janeiro	24	28	F	Buenos Aires	24	28	F
Rome	11	7	F	Lima	24	28	F
Sao Paulo	24	28	F	Sao Paulo	24	28	F
Seoul	12	8	F	Sao Paulo	24	28	F
Shanghai	12	8	F	Sao Paulo	24	28	F
Singapore	24	28	F	Sao Paulo	24	28	F
Southeast Asia	24	28	F	Sao Paulo	24	28	F
Taipei	24	28	F	Sao Paulo	24	28	F
Tokyo	12	25	F	Sao Paulo	24	28	F
				Sao Paulo	24	28	F
MIDDLE EAST				NORTH AMERICA			
Amman	24	28	F	Atlanta	24	28	F
Cairo	24	28	F	Boston	24	28	F
Damascus	24	28	F	Chicago	24	28	F
Jerusalem	24	28	F	Dallas	24	28	F
Manama				Detroit	24	28	F
Moscow				Houston	24	28	F
Nairobi				Los Angeles	24	28	F
Paris				Los Angeles	24	28	F
Rangoon				Los Angeles	24	28	F
Rio de Janeiro				Los Angeles	24	28	F
Rome				Los Angeles	24	28	F
Sao Paulo				Los Angeles	24	28	F
Seoul				Los Angeles	24	28	F
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Taipei				Los Angeles	24	28	F
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AMERICAN TOPICS

Universities Set Up Branches in Capital

Several U.S. universities are setting up branch campuses in Washington, complete with faculties, classrooms, dormitories, meal service and extracurricular activities. Stanford and Cornell have had such miniature campuses for several years, and Syracuse and Michigan plan to do likewise. Students will generally be in residence for one semester of seminar and research work and for first-hand experience as interns in government offices.

Next in Computers: Photo-Sharp Images

Personal computers will soon be able to use sophisticated mathematical formulas to create images as realistic as photographs. A real estate agent using a personal computer might be able to show a customer what a new home will look like before it is built, or an interior decorator could experiment on a computer screen with different kinds of furniture and different colors of carpeting and wallpaper. The New York Times reports. The resulting pictures would be images that look as if light were really streaming through the window and the hardwood floor were really glistening.

Such sophisticated graphics

technology, known as rendering, has been available until now only on extremely powerful computers and has been used mainly for special effects in films and for flight simulators. Getting a single image that looks like a photo can require trillions of calculations and take several hours, even on a \$100,000 minicomputer.

But engineering work stations are now becoming powerful enough to handle such tasks to some degree, and personal computers are expected to become fast enough in the next few years.

Short Takes

The words "until justice rolls down like waters and righteousness like a mighty stream" are adapted from the biblical Book of Amos, Chapter 5, Verse 24, and the Reverend Martin Luther King Jr. never claimed otherwise when he used them in speeches. The inscription on the new civil rights monument in Montgomery, Alabama, attributes the words to Mr. King. In a letter to the Los Angeles Times, William Shinderman suggests, "Perhaps a credit line could be added to the wall to inform the viewing public of the actual source of this fine inspirational thought."

The Federal Bureau of Investigation charged 22 New York-area doctors with trying to defraud Medicaid, the federal health care program for poor people, by conspiring to receive kickbacks in return for prescribing expensive medical equipment for fictitious patients. "They are now painfully aware of the fact that the FBI still makes house calls," an agency spokesman said.

Notes About People

George Bush's hand speeches are no accident. "He is trying to



WORLD VIEW — An artist at Rand McNally's plant in Richmond, Kentucky, puts the finishing touches on a "geo-physical globe," which has a diameter of six feet and a price tag of \$36,250.

deal with the public in the same way he deals with Congress — low-key, without a lot of pretense," says S. Robert Lichter of Washington's Center for Media and Public Affairs, a private group. U.S. News & World Report magazine says that even when the president's speechwriters concoct a rhetorical flourish

for him he usually scratches it out, saying, "It's not me."

Every Little Leaguer knows to hold the trademark of his bat facing up so the ball will be hit with instead of against the grain, minimizing the chances of the bat's breaking. A current-to-do about over-sized labels that show up on television recalls the 1957 New

York-Milwaukee World Series, when the Yankee catcher, Yogi Berra, reminded the Braves' Hank Aaron to turn his bat around "so you can see the trademark." Without looking back, Aaron replied, "Didn't come up here to read, came up here to hit."

Arthur Higbee

CRACK: Sellers' Dream Streets Turn Into Mean Streets

(Continued from page 1)

distributor and resold on the streets of the Bedford-Stuyvesant section. He said he saved almost no money from week to week because he had to spend whatever he earned on projecting the right image: buying fashionable clothes and jewelry — the seller's uniform — and throwing money around to impress young women. At first he attributed his inability to accumulate wealth to "bad luck."

Then, he said, "I got locked up." Other sellers said they made the cash, he said. "Out of 10 kids in the neighborhood, at least seven will be able to buy a Benz by next summer."

But, questioned further, he conceded that he did not know of a single person who has really made any money selling drugs.

And his real assessment of his three years as a seller? "To be honest," he said, "it was a waste of time. I could have been doing more constructive things. I tried, because I saw that the money was there. But the money ain't there for everybody."

Ansley Hamid, an anthropologist at John Jay College of Criminal Justice, said his research confirmed that most people who sell crack or heroin also use drugs. They told of the violence of turf battles and how rigidly the territorial and organizational lines are enforced.

Lorraine said that two young men new to the area recently came into Williamsburg and stood on a corner of First Street selling crack. "They were trying to make money on their own," she said. But she said that another man who saw his own business threatened walked up and shot one of them in the testicles. The wounded man is still alive, she said.

The two sisters and other residents said that eight dealers essentially control all the drug sales in a 40-square-block area. Lorraine said most people think the sellers may make \$50 a night, or \$300 a week if they are asked to sell for six days in a row. They earn 50 cents on each \$5 vial of crack they sell. Runners, who are the highest paid of the street workers, may make \$500 a week, Lorraine and Debbie said.

Others say that the average figures are much lower over the long term. Philippe Bourgois, an an-

thropologist at San Francisco State University who is studying the crack business, said that lookouts in East Harlem make as little as \$35 in a 12-hour shift.

For most people, said John Hagadorn, an anthropologist who works for the city of Milwaukee, drug selling is "just another minimum-wage job."

Distributors in the upper echelons of the crack world do get rich. Some of the more successful street workers do make more money than the minimum wage, but they fail to accumulate the wealth they dreamed of. One frequent reason is their own drug addictions. Many either use the drugs they are supposed to be selling or buy drugs with the money they do earn.

And their chances of moving up in the drug hierarchy to where the money is made are slim. For one thing, careers are short. Residents and street-level workers in Brooklyn estimate that most of the workers there have three to six months before they are arrested and imprisoned.

Benjamin Z., a Bedford-Stuyvesant seller, said that even if these people have saved any money or accumulated property — which he said rarely happens — it is taken from them. They end up with nothing, he said.

It was the threat of jail or death that led Y. DeWolfe Smith, 26, to give up selling cocaine and take a job in a car wash, for \$4.50 an hour. Over dinner at a restaurant near the housing project where he lives with his mother, Mr. Smith said he was "scared straight."

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Polystyrene	1
Expanded plastics	1
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Styrene copolymers	2
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Polyurethane	2
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1 = Market leader
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Salvador Rebuffs Managua

Ties Suspended Over Rebel Aid

Compiled by Our Staff From Dispatches

SAN SALVADOR — President Alfredo Cristiani said Sunday that El Salvador was suspending relations with Nicaragua because of Managua's support for rebel attacks on the Salvadoran government.

"We are suspending relations — be they diplomatic, commercial or of any other type — with Nicaragua," Mr. Cristiani said during a television broadcast.

The move came a day after the crash of an airplane that was said to have been smuggling sophisticated surface-to-air missiles from Nicaragua to the Farabundo Martí National Liberation Front.

In Nicaragua, President Daniel Ortega Saavedra said, "I feel proud that this murderous government has cut relations with Nicaragua. It means we are on the side of the Salvadoran people, of peace and democracy in El Salvador and not on the side of tyranny."

Although the suspension of relations is a step short of formally breaking ties, diplomats said it made little difference in practical terms. Nicaragua pulled its diplomats out of San Salvador a week after the recent guerrilla offensive began, when its embassy received death threats.

Mr. Cristiani said that El Salvador could no longer tolerate "the interference, the treacherous action" of Mr. Ortega. He also said his country would not be represented at a meeting of five Central American presidents scheduled for Managua in December.

He criticized Mr. Ortega and Fidel Castro, the Cuban president, for what he said was their refusal to join the wave of liberalization sweeping much of the Communist world. "They are the only two who keep trying to impose themselves by means of the gun," Mr. Cristiani said.

Arms Plane Crashes

Lee Hockstader and Douglas Farah of The Washington Post reported earlier from Piedra Pata, El Salvador.

An unmarked twin-engine airplane carrying East European anti-aircraft missiles and other weapons that government officials say were bound for leftist guerrillas crashed Saturday in eastern El Salvador.

The civilian pilot and two other passengers died in the crash. Another injured passenger, also in fatigues, shot himself in the temple moments after the crash, according to a farmer who witnessed the suicide.

Although none of the men carried identification, evidence allegedly found in the wreckage indicated that at least one of the



Journalists and soldiers examining the wreckage of a twin-engine airplane that was reportedly carrying East European anti-aircraft missiles and other weaponry for the guerrillas in El Salvador.

passengers may have had ties to Cuba and that the plane may have taken off from Nicaragua and headed for an isolated landing strip not far from the Salvadoran coast.

The rebels have never used anti-aircraft missiles against government forces, which rely heavily on helicopter gunships and other aircraft. Analysts have said that if the guerrillas ever obtained such missiles, the balance of power in the conflict would shift markedly in their favor. Washington and San Salvador have long accused Nicaragua of arming Salvadoran rebels.

Military sources said that if the guerrillas started using shoulder-fired SA-7 missiles, Salvadoran armed forces would have trouble evacuating the wounded, transporting and resupplying troops in the field and providing air support to ground forces during combat.

In the past, Liberation Front spokesmen have acknowledged that the introduction of the missiles into the rebel arsenal could provoke a political forestom in Washington and possibly lead to an in-

crease in the level and sophistication of U.S. military aid to the government armed forces.

Senior military officials reported that a second airplane, also said to be carrying arms, landed, experienced mechanical problems and was set afire by its crew near Zacatecoluca, 32 kilometers (20 miles) south of the capital, after the crew unloaded the weapons. The types of arms were not known.

The airplane that crashed, a twin-engine Cessna 310, dropped into a soybean field about 110 kilometers southeast of the capital at dawn Saturday, according to military sources and to Fredy de Jesus Garay, a 22-year-old farmer. There are at least two small airstrips within three kilometers of the crash site, which is along an established Liberation Front supply route.

Reporters arrived at the crash site by military helicopter around 12:35 P.M. They were shown a leasing order form from SETA, an air taxi service in Managua, that military officers said had been discovered in the wreckage. Also

found in the pocket of one of the passengers, the military said, was a snapshot of a young woman, the back of which was inscribed with an affectionate message dated "23 May 1989, Havana."

Mr. Garay said he heard the plane rev its engines twice before it crashed. As he approached the plane, the farmer said, he saw a man, badly injured, crawl from the wreckage, pull out a pistol and shoot himself once in the head.

The weaponry reportedly found aboard included 24 East European SA-7 anti-aircraft missiles, three boxes of missile booster devices, a U.S.-made Redeye anti-aircraft missile, a .75mm recoilless rifle with a sighting device and 21 82mm mortar shells.

Witness Reported in U.S.

U.S. officials and Jesuit leaders said that a woman who witnessed the Nov. 16 killings of six Jesuit priests in El Salvador had come to the United States for her own safety. The New York Times reported from Washington.

Possible Soviet Naval Offer Worries U.S.

By R. Jeffrey Smith

Washington Post Service

WASHINGTON — U.S. officials, normally ebullient at any prospect of Soviet military cutbacks, have been unhappily observing a withdrawal of Soviet naval vessels equipped with nuclear weapons or propulsion from the Mediterranean Sea prior to the meeting there between President George Bush and Mikhail S. Gorbachev, the Soviet president.

The withdrawal, encompassing most of the Soviet nuclear-armed submarines and surface ships routinely stationed there, is considered one of the strongest signs yet of Mr. Gorbachev's intention to press for bilateral constraints on naval armaments during the Dec. 2-3 meeting.

The prospect of a dramatic Gorbachev initiative tailored for broad public appeal — perhaps a renewed declaration that the Mediterranean should be a nuclear-free zone — is "giving many of us nightmares," a military official said last week, because the Bush administration has been opposed to any naval arms control and will likely not be inclined to make a counteroffer.

To the Soviets, naval arms control clearly represents the last unscaled peak in military rapprochement with the West. Talks already under way on strategic arms, conventional forces and chemical weapons, and recent changes in Eastern Europe are un-

determined political support for modernization of Western short-range nuclear missiles.

Naval forces remain excluded from bilateral negotiation because the United States refuses to surrender its overwhelming superiority. To Moscow, this is unacceptable when parity is being negotiated in every other military sphere; to Washington, it correctly reflects each nation's location and its role in world events.

In Washington, no one is more adamantly opposed to naval arms control, or more successful in getting his way, than Admiral Carl A.H. Trost, the chief of naval operations since 1986.

Admiral Trost, 59, noted in an October speech at the Naval School in Leningrad that many Soviet leaders saw U.S. reluctance to include naval forces in overall arms control as "the single most significant obstacle to the continuing improvement in relations."

But he said he interpreted all naval arms constraints "as attempts to abrogate commonly accepted international law with respect to freedom on the high seas." The U.S. Navy, he asserted, "must be free to operate when and where deterrent presence is required."

Officials say that the navy, under Admiral Trost's leadership, until recently blocked virtually any substantive U.S. consideration of arms control for sea-based forces. The topic was never addressed during

the administration's lengthy strategic review last spring, although Mr. Bush had ordered its inclusion.

But ahead of the meeting with Mr. Gorbachev, various State Department officials have advised that Mr. Bush is prepared to accept discussions on "confidence-building" measures like joint notification and observation of large naval exercises.

Other experts at the Pentagon's joint staff have studied expanding an existing accord aimed at avoiding accidents or incidents at sea.

Officially, the Bush administration is still hostile to these ideas. "The point is we're still not interested in naval arms control, no bow, no way," a senior military official said when asked last week about the Soviet naval withdrawal.

Moscow has steadily turned up the volume on naval armaments since the summer, when Western nations made compromises that brought a conventional arms agreement closer to fruition. Marshal Sergei F. Akhromyev, a Gorbachev adviser and former chief of the armed forces, explicitly linked the two issues in a lengthy Pravda article three weeks ago.

Powerful Soviet conventional forces in Europe were created, he suggested, to restrain the United States by holding its allies hostage, while U.S. strategic naval forces were created to threaten and thereby restrain the Soviet Union. The latter must be reduced along with

the former to maintain an equilibrium, he argued.

A few days earlier, Mr. Gorbachev had declared in Helsinki that the process of gradually eliminating military confrontation would not take place "if this problem is not resolved."

Moscow has proposed that anti-submarine forces and other vessels be excluded from designated ocean zones or sea lanes; that U.S. aircraft carriers be retired in exchange for Soviet submarine retirement; and that limits be placed on sea-launched cruise missiles with both conventional and nuclear weapons.

With regard to the Mediterranean, where the Soviets routinely station six to 10 large surface combatants and five to seven attack submarines, Moscow has urged the creation of a nuclear-free zone and the gradual withdrawal of foreign bases and naval fleets.

U.S. officials say that Moscow is largely trying to win U.S. concessions for naval cutbacks that will take place anyway due to Soviet economic troubles.

The officials acknowledge that the United States has more large surface vessels, including aircraft carriers, more naval aircraft, and more allied vessels; its Mediterranean forces are substantially greater than those of the Soviet Union. But they argue that all these are needed to ensure that the U.S. military can meet its commitments.

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Agent Says CIA Backed Him on Contras

By David Johnston

New York Times Service

WASHINGTON — The former Central Intelligence Agency official whose Iran-contra case was dismissed last week by a federal judge says that his superiors fully approved of his secret efforts to aid the Nicaraguan rebels.

Joseph F. Fernandez, who was the station chief in Costa Rica, said that senior agency officials who knew of his activities remained silent while he alone took the blame for the agency's role in the affair.

By allowing him to take the blame, Mr. Fernandez said, his superiors violated the unwritten code of honor of "loyalty up, loyalty down" that guided agents.

Mr. Fernandez, who appeared alternately bitter and bewildered at his treatment by the government, said, "In the clandestine service, there are rules not explained in any book or regulations. These are rules that are absolutely inviolable. Integrity is essential between superiors and subordinates, between headquarters and the field."

Mr. Fernandez, who directed CIA operations in Costa Rica from mid-1984 to December 1986, insisted that his actions were lawful.

"For this I suffered three years," said Mr. Fernandez, who was with the agency 20 years. But he added later, "The irony is I still love the agency."

Officials at the intelligence agency who testified to Congress before the affair became public said the agency was not assisting in the supply of the Contras. Later, after Mr. Fernandez's activities were disclosed, they said in congressional testimony that they were unaware of the full extent of the activities of their agents in Latin America.

Thomas E. Wilson, who is Mr. Fernandez's attorney, said the officials who misrepresented the agency's involvement were caught by conflicting pressures.

"They were forced to choose between loyalty to the president and being candid with Congress," he said.

Mr. Fernandez was the only intelligence official indicted in the affair. But a federal district judge, Claude M. Hilton, dismissed all criminal charges against Mr. Fernandez, citing Attorney General

Dick Thornburgh's decision to bar the disclosure of classified information that the former agent wanted to use in his defense.

The judge ruled that Mr. Fernandez could not receive a fair trial because the information barred by Mr. Thornburgh was essential to the defense.

Mr. Fernandez said that his activities were known to several senior officials in the Reagan administration, including Alan Fiers, the former chief of the CIA's Central America Task Force. Mr. George, the agency's former deputy director of cover operations, and Elliott Abrams, the former assistant secretary of state for Central America.

Informed of Mr. Fernandez's comments, Mr. Abrams said: "I was not his superior. In any event, I have testified fully on this. I am just not going to get into denying and not denying."

Mr. Fiers, who has retired from the agency, declined to speak with a reporter.

Mr. George's wife said he was not available to answer a reporter's question.

Mr. Fernandez was charged on

four counts, including making false statements to CIA officials and to a presidential review board when he was asked about his efforts in Central America to assist Oliver L. North, the former aide to the National Security Council.

Mr. Fernandez helped Mr. North organize deliveries of weapons and supplies to the Nicaraguan rebels at a time that such aid had been prohibited by Congress. But he insisted that he carefully obeyed the congressional ban on assistance and reported virtually all of his activities to his superiors at the agency.

Mr. Fernandez said his main involvement in the affair related to the building of a secret air strip in Costa Rica that was to be used to help resupply Contras operating in southern Nicaragua.

He said his actions were legal because they involved mainly monitoring and reporting on the contacts between representatives sent by Mr. North and Costa Rican government officials.

"I simply collected information and I reported it to headquarters," he said.

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THE TUMULT IN EASTERN EUROPE: In Moscow, a Pole finds "unanimity" but no immediate help.

Soviets Turn Down Polish Aid Requests

By Bill Keller
New York Times Service
MOSCOW — Prime Minister Tadeusz Mazowiecki of Poland has declared in Moscow that he achieved "complete unanimity" with President Mikhail S. Gorbachev on key issues of European security, but during a four-day visit he evidently won no immediate help from the Kremlin in dealing with his economic crisis.

At a news conference, the Solidarity prime minister could cite no progress on a number of economic issues he raised with Soviet officials, including increasing deliveries of Soviet oil and gas, cutting the share Poland pays for the upkeep of Soviet troops on its soil, postponing repayment of Warsaw's debt to Moscow and compensating Poles deported to the Soviet Union during and after World War II.

"I would ask you to understand that we can hardly expect that in one or two days we can solve all those issues," Mr. Mazowiecki said Saturday night.

Moscow also withheld a concession that would have allowed him to return home in triumph — a change of official position on the massacre of thousands of Polish officers in the Katyn Forest during World War II.

The Soviet position, currently under review by an official commission, is that the crime was committed by Nazis in 1941 and not, as the Poles and Western historians contend, by Soviet troops acting on orders from Stalin in 1940.

The leaders agreed heartily on maintaining the postwar borders in Europe, and Mr. Mazowiecki said he would support a statement by the United States, Britain, France and the Soviet Union reaffirming the current frontiers as inviolable.

"Respect for the existing borders in Europe is a guarantee of stability," he said, adding that he and the Soviet leader were in "complete unanimity" on such questions.

It was clear that the most difficult issues in Mr. Mazowiecki's talks with Soviet officials were economic, with Poland suffering from huge foreign debts and long-range fuel shortages, but Moscow in poor condition to help.

The Poles have asked Moscow to increase natural gas deliveries in the next five years from 40 billion cubic meters to 50 billion, but Mr. Mazowiecki said Saturday night that deliveries were to continue at the same level. Moreover, the Poles are to move toward paying in hard currency, rather than in the easier currency of Polish-built machinery.

Mr. Mazowiecki said that he did

not question the presence of 40,000 Soviet troops in Poland but that he did ask Moscow to review Poland's payments for their upkeep, receiving a promise of study but no clear commitment.

■ **EC Meeting on Changes**
European Community support for change in Eastern Europe will dominate a meeting of EC foreign ministers on Monday, eclipsing internal quarrels over monetary union, Reuters reported from Brussels.

The ministers are set to boost measures already planned for Poland and Hungary, the two countries furthest along a new wave of change, by making more trade concessions.

The EC recently signed signed trade and cooperation accords with Warsaw and Budapest.

Hungary Votes Freely for First Time Since '47

New York Times Service
BUDAPEST — Hungarians on Sunday took part in the first free national voting since 1947. In a referendum, they voted on whether their president should be elected while the governing Socialist Party, which last month converted from communism, remains in full control of the country.

The government has set voting for the new post of president for Jan. 7, but two opposition parties object. They demand that elections for the first freely chosen parliament be held first, saying that only then can a president be democratically elected.

The Socialist Party charged that its opponents wanted to deprive Hungarians of choosing their president directly. It added to the ballot a statement noting that, under an election law that will take effect with the new parliament to be chosen next spring, the legislature, not the public, will elect the president. Opponents say that the new parliament will be free to decide how the president is chosen.

Sunday's voting stemmed from negotiations concluded in September between the then Communist Party and eight opposition groups.

Gorbachev Adopts a Slogan From Prague '68

By David Remnick
Washington Post Service

MOSCOW — President Mikhail S. Gorbachev said Sunday that his goal was to provide socialism with a "human face," a phrase that Czechoslovak opposition leaders have taken as an endorsement of their program and even as an implicit apology for the Soviet-led invasion of their nation in 1968.

Mr. Gorbachev's remark was in the midst of an article published in Pravda that also praised the "achievements" of capitalism, including individual liberty and the rule of law.

At a rally in Prague, Alexander Dubcek, who was toppled by the invasion 21 years ago and who now is the symbolic link between the "Prague Spring" of 1968 and the present pro-democracy movement led by the group Civic Forum, repeated Mr. Gorbachev's words to the deafening approval of the crowd.

Mr. Dubcek, the originator of the slogan "socialism with a human face," may have wanted a more explicit apology from the Kremlin, one that would finally undermine the legitimacy of the Communist Party leaders in Prague who came to power after the invasion.

Mr. Gorbachev's lengthy article, "The Socialist Idea and Revolution," did not specifically mention Czechoslovakia. But East Europeans have grown used to reading Kremlin speeches closely.

In Prague, opposition leaders said Mr. Gorbachev's statement was as close to an apology as they were likely to get. Several of the Kremlin loyalists who replaced Mr. Dubcek in 1968 have now resigned.

Mr. Gorbachev's article seemed aimed at showing his determination to "renew" socialism in the Soviet Union well into the 21st century and maintain the party's constitutionally guaranteed "leading role." Thoughts of a capitalist system or any other such path, Mr. Gorbachev said, are folly.

Nevertheless, Mr. Gorbachev showed an unusual willingness to praise capitalism. He said the Soviet Union would do well to adopt some of its "achievements," including "equality of all before the law," individual liberty and "principles of the production of goods and equivalent exchange based on the law of value."



Cardinal Frantisek Tomasek leaving Prague's St. Guy's Cathedral after direct broadcast of a service was permitted for the first time.

Urbanek: Perhaps a Short-Term Leader

By Steven Greenhouse
New York Times Service

PRAGUE — Karel Urbanek, a Communist Party functionary unknown abroad and little known in his own nation before he was chosen as party leader, finds himself at the center of swelling criticism in his first few days in office.

As more than 500,000 Czechoslovaks marched Sunday to demand an end to one-party rule, many in the crowd were predicting that Mr. Urbanek would last only a few days in the position before being swept away in favor of a more liberal leader.

There was no advance indication that Mr. Urbanek, 48, a former railroad worker from Moravia, was the man to move his country toward the multiparty democracy and open elections being sought in huge demonstrations that began more than a week ago.

In an article in March, for instance, in the party weekly, Tribuna, he accused the Charter 77 human rights campaigners of being "domestic enemies" who "have their mouths full of freedom, human rights, democracy, dialogue, observance of laws."

"But these slogans only serve

them as a smoke screen to deceive the people for political demagoguery," he said.

On Saturday night, with the party leadership in disarray, he said, "I try to work in a way so I can always look into people's eyes."

Mr. Urbanek was elected to replace Milos Jakes, the hard-line party general secretary, on Friday.

Many in Prague were predicting that the new party leader would last only a few days in the position before being swept away in favor of a more liberal leader.

night in a special meeting of the Communist Party Central Committee. But the nine-man Politburo, which was chosen and announced late that night, includes six members of the old 13-man Politburo.

On Saturday morning, store windows and subways in Prague were covered with small posters showing Mr. Urbanek as a mirror image of Mr. Jakes, demonstrating how well-organized and sophisticated the opposition has become.

In a speech Saturday night, Mr. Urbanek seemed eager to please not only the millions of people who have protested in the streets, but also party members. He said he wanted to cooperate with people who were purged from the party after Warsaw Pact tanks rolled into Prague in 1968 to force out Alexander Dubcek, the party leader.

He has also long worked as a party functionary and government administrator. The Czechoslovak diplomat said the key to his election was that he had developed a strong power base as party leader of the Czech republic.

Mr. Urbanek was elected to the Politburo in October 1988, where he has been the second youngest member.

"My impression of him is that he is a neutral man," said Jaromir Masak, editor of the Socialist Party newspaper, Svobodne Slovo. "He seems much better than Jakes."

He is so little known that people talk about him as "benign" and a "nonperson." Nevertheless, Saturday night this man with a strong jaw and heavy eyebrows sought to project a strong image.

Call to Probe Corruption Reported in East Berlin

The Associated Press

BERLIN — Some East German Communists have demanded an inquiry into alleged diversion of huge hard-currency revenues from about 100 party-owned businesses, party sources said Sunday.

A high-ranking East German Communist, meanwhile, said the party had lost 200,000 members since September.

The party chief, Egon Krenz, himself a member of the inner circle of his hard-line predecessor, Erich Honecker, has been attempting to shift attention to the abuses of the past.

The latest disclosures concern businesses set up by the Communist Party to take in hard currency, including West German Deutsche marks, sources close to the Central Committee said.

The sources, speaking on the condition of strict anonymity, said the companies took in 7 billion DM to 12 billion DM (\$3.8 billion to \$6.6 billion) per year. The sources alleged that much of the money remained unaccounted for.

Several high-ranking Communist advocates of change, whose names were not disclosed, have called for a probe into where the money went, the sources said.

The enterprises involved range from transport and electronics companies to an art trading company. Many of them sell East German products to Western nations, the sources said.

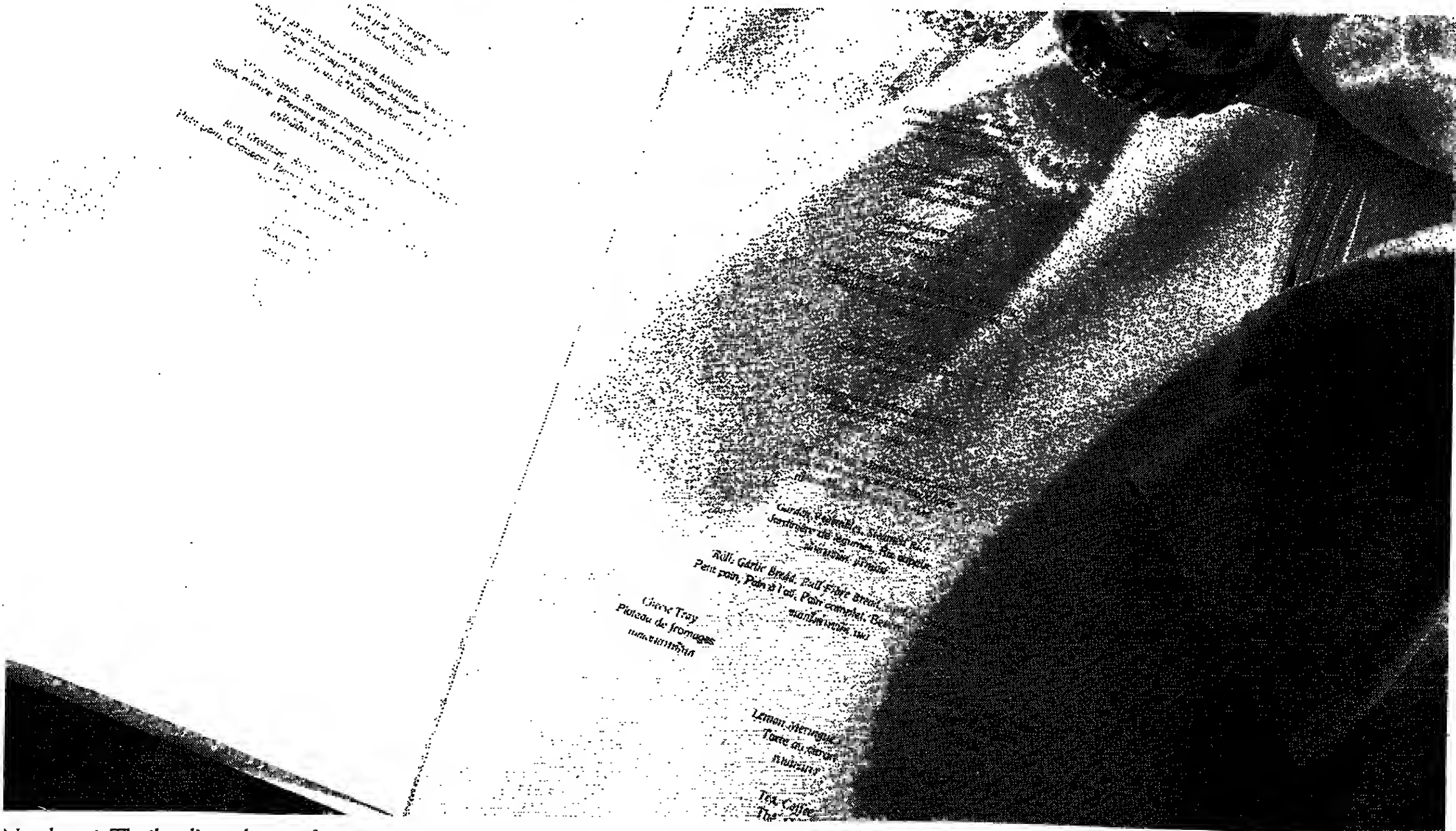
In a report in the weekend edition of the official party newspaper, Neues Deutschland, a Central Committee member, Heinz Mirtschin, said the party had lost about 10 percent of its membership in the last two months.

"About 70 percent of them are workers," Mr. Mirtschin said of the 200,000 resignations.

■ **Youth Group Quits Party**
East Germany's mass youth federation has declared its independence from Communist Party control, Reuters reported from Berlin.

The Free German Youth group, which has two million members, elected Frank Turkowsky, an advocate of change, after its hard-line leader, Eberhard Amrich, resigned under fire.

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THE TUMULT IN EASTERN EUROPE: In Prague, a policeman makes an accusation and the crowd cries, "Who is guilty?"

A Policeman Tries to Explain

By Blaine Harden

Washington Post Service
PRAGUE — "I am Lieutenant Ludvík Pinc of the emergency motorized unit of the Prague police," said a tall young man with high cheekbones, short brown hair and a ram-rod back.

"We members of the emergency motorized unit agree with the democratic changes that are beginning to take place today," he said. "We see today in the fact that we were the instrument that was used to try to stop these democratic changes."

In the midst of a people's revolution that is forcing the Czechoslovak Communist Party into a confused retreat, the young lieutenant showed up at a podium here Sunday to explain who is responsible in his country for police brutality. His audience was several hundred thousand demonstrators gathered on a windy, snow-covered assembly ground in central Prague, as well as a nationwide television audience.

It was the brutal beating by the Prague police of student

demonstrators on Nov. 17 that sparked the daily mass demonstrations that since then have spread across the country, forcing resignations in the senior party leadership and pressuring the government to begin negotiations with the opposition.

In the past three days, state television has repeatedly broadcast video tapes of the police clubbing bleeding students.

The police lieutenant's unexpected and unauthorized appearance, for which he said he would be "severely disciplined," was among the most electric moments of the 10 days of astonishing events here.

"Since the 17th of November, we feel an unprecedented hatred against us," Mr. Pinc said. "It has to be seen that no ordinary member of the police is authorized to decide about the carrying out of such an intervention, or the force and means used."

"This is a decision of high party and state officials. Not even middle level officers are authorized to interfere."

To these sentences the huge

crowd chanted in unison: "Who is guilty? Who is guilty? Who is it? Who is it?"

At the podium, to thunderous chants of "Come With Us! Come With Us!" Mr. Pinc explained that the "ordinary police" are under extraordinary pressure to obey party orders.

"If members of the police do not follow orders, they are subject to long years of detention, especially when refusing obedience in case of a public intervention," he said.

This statement was met with whistles and boos from the crowd, aimed not at the lieutenant, but at his superiors.

"We want to express our consent and agreement for democratic changes that start to take place in our country," Mr. Pinc said. "We regret above all that the irresponsible attitude of top officials has put us against the people of our country."

The striking students have offered us their hand and we want to accept it."

The crowd, in response, again

PRAGUE: Adamec's Pledge

(Continued from page 1)

side at an emergency meeting of the Central Committee. But on Saturday, it was announced that Mr. Adamec would stay on in his job pending the outcome of the emergency meeting.

The television news, which since its conversation to the dissident cause on Friday has become the most powerful agent of change in the country, broadcast news Sunday that Communist leaders in some small towns were trying to intimidate people and keep them from striking. It also featured a number of Communist Party members making damning statements about the party leadership.

In his third speech to demonstrators in as many days, Mr. Dubcek called on the Soviet Union, Bulgaria and East Germany to join Hungary and Poland in condemning the 1968 invasion of Czechoslovakia.

As he spoke, he was frequently interrupted with cheers of "Dubcek to the castle!" The crowd was referring to the president's residence in Prague.

In other developments as reported by news agencies:

• The government freed Peter Uhl, a leading opposition figure and the director of the independent news agency VIA. Mr. Uhl was among eight political prisoners released on orders from President Gustav Husak after Mr. Adamec intervened.

• A student leader announced at the rally, after meeting state representatives, that the general prosecutor had declared the Nov. 17 security force attack on protesters to be "inappropriate and overly harsh" and suggested possible criminal proceedings.

• The Reverend Václav Malý, a banned Roman Catholic priest and dissident, said "there is hope" that 16 more political prisoners would be freed by Monday, following the releases or pardons granted to eight prominent dissidents Saturday.

ARMS: Washington and NATO Can Consider Forces Cuts, Cheney Says

(Continued from page 1)

But in the context of his remarks, he made it clear such a development would be "a plus" and would call for a response from NATO.

He said that Mr. Bush's policy guidance prohibited the United States from making unilateral cuts in its forces committed to NATO. He said that such cuts were allowable "within the framework of the alliance and only in response to reductions on the other side."

The suggestion by Mr. Cheney that further reductions in conventional armed forces could occur on two tracks, one at the negotiating table in Vienna and one by NATO consensus in response to Soviet withdrawals, would enable the Bush administration to appear more flexible in the face of rapidly unfolding political changes from Warsaw to Prague.

Coming as it does in advance of next week's summit meeting between Mr. Bush and President Mikhail S. Gorbachev, Mr. Cheney's solicitation of further Soviet troop reductions in Eastern Europe

seemed to signal an emerging Bush administration strategy for encouraging an ad hoc disarmament process based on East-West gestures to coincide with technical negotiations at the bargaining table.

Such a strategy, if it evolves, is likely to irritate some NATO allies, such as Prime Minister Margaret Thatcher of Britain, who advocates no reductions for a number of years after a new East-West military balance is achieved in the first round of Vienna negotiations.

Mr. Cheney tied the discussion of an accelerated withdrawal process in Europe to his goals for making major cuts from the U.S. defense budget over the next four fiscal years.

Such cuts would be made easier if the threat of a Soviet attack in Europe diminished so extensively that the "warning times" used by U.S. war planners for reinforcing NATO armed forces would be stretched out significantly.

This could save billions of dollars by bringing U.S. troops home, putting greater emphasis on reserve

forces, reducing airlift requirements and relying more on less expensive sealift for reinforcing Europe in a crisis.

Asked if this meant a new U.S. configuration of forces in which the size of the U.S. Army would be dramatically reduced while naval and air forces would carry a greater burden for projecting U.S. power around the globe, Mr. Cheney said, "I think you've got a pretty good idea of where we're going given the state of developments."

The defense secretary said that published reports citing a Pentagon plan for cutting \$180 billion in defense spending between now and 1994 "is nothing more than a planning target that I've asked the services to respond to." But in other remarks he indicated cuts of that magnitude were out from his thinking.

He said he had not completed his five-year spending recommendations, but he said he was seeking to present Congress with a "credible" budget that "gives some recognition to the most recent developments in Eastern Europe."

At one point, he indicated his five-year plan could reduce spending \$140 billion from the first Bush five-year program submitted to Congress last January.

But, Mr. Cheney later said, "I think if you are looking at taking \$150 billion to \$160 billion out of the defense budget, you've got to review virtually all aspects" of U.S. defense spending and configuration of forces. Mr. Cheney has said he prefers restructuring the military and redefining worldwide U.S. military missions as opposed to merely apportioning the cuts equally across the services.

In preparation for the NATO discussions, Mr. Cheney said he would unapologetically explain that the United States was cutting its defense budget even though it continued to exhort other NATO countries to increase their spending.

"I don't have any qualms at all about saying to our NATO allies, especially those who have never contributed as much as we do in proportionate terms to the common defense, that they've got an obligation to contribute to our mutual security," Mr. Cheney said.

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GERMANS: Reunification Issue Dominates Agenda

(Continued from page 1)

whether the East German leadership is willing to allow nonsocialist political parties to compete for power in free elections, expected next autumn or in early 1991.

The reunification issue vaulted to the forefront of international debate this autumn as the East European democracy movement spread to East Germany, which hitherto had been one of the region's most orthodox Communist states.

East Germany's most important step so far, the opening of the Berlin Wall and its other borders to the West on Nov. 9, has dramatically raised expectations for increased contacts between the two German states that could create a foundation for ultimate reunification.

At the recent EC talks in Paris,

Bonn's partners pledged to work more closely on the economic and political integration of Western Europe, largely as a means of binding West Germany to the West.

But concern over reunification is even higher in Eastern Europe, and especially in Moscow.

The Soviet Union has made it clear that it is willing to allow dramatic changes among its East European satellites but that it has a critical interest in preserving the independence of East Germany as its most strategic ally in the region.

East Germany is at the front line of the Warsaw Pact's confrontation with the North Atlantic Treaty Organization in central Europe. The Soviet Union has 380,000 troops stationed there, by far its largest foreign contingent.

Still, Bonn has received "very concrete signals" that the Kremlin is making a comprehensive study of the situation in East Germany, including pressures for reunification.

While emphasizing that Moscow appears committed to preserving an independent East German state, a senior official said that the Kremlin might be pushed by events into bargaining over the terms of reunification if pressures for it mount.

The most likely Kremlin demand in exchange would be a neutral Germany, a prospect that implies the collapse of both military alliances in Europe and a wholly new global security system.

The possibility of such a Soviet offer, the senior Bonn source said, "is the main concern of our allies," who fear that West Germany would be unable to resist the bait.

GORBACHEV: Changes Outpace the Soviet Leader

(Continued from page 1)

was insisting that the party should maintain its dominant position in the Soviet Union. In his view, the Communist Party is the only political force capable of holding together a vast multinational state made up of more than 100 ethnic groups.

While insisting that every country should have "freedom of choice," Mr. Gorbachev also has made it clear that there are limits to self-determination in the Soviet Union. In theory, the Soviet republics have the constitutional right to secede. In practice, Mr. Gorbachev is determined to prevent them from exercising a right that could lead to the breakup of the Soviet Union.

In order to provide ideological justification for the changes taking place in Eastern Europe, Soviet commentators have been busy redefining the word "socialism." The term has become so elastic that it can apply to just about any country with a mixed economy, including places like Sweden and Austria.

"Communist parties of the old type are losing power," said Yegor Ambartsumov, a leading Soviet expert on Eastern Europe. "We must remember that the party is not the aim in itself. The aim is the improvement of people's living standards. The political constellation is changing in many of these countries. Coalition governments will probably be the most likely form of government in the future."

Pressures for similar changes are building in the Soviet Union. Mr. Gorbachev beat back an attempt by progressives to put on the agenda the Communist Party's constitutionally guaranteed "leading role" when the Congress of People's Deputies reconvenes next month. But he is now bombarded with

questions about a multiparty system wherever he goes.

For the moment, these pressures seem manageable. The Soviet political tradition is different from that of Eastern Europe. With the exception of a few months in 1917 before the Communists seized power, Russia has been ruled by autocracy. Unlike the Czechoslovaks, and even the Poles and Hungarians, the Soviets have no direct experience of parliamentary democracy.

Furthermore, the 19-million-strong Soviet Communist Party is a homegrown political institution. It may have failed miserably to transform the world's second superpower into a modern, dynamic society, but it was not imposed on the Soviet Union from outside. There is no obvious alternative political force in sight that is capable of unifying a country of 280 million people.

Kremlin ambiguity toward the changes in Eastern Europe is reflected in the Soviet media. News coverage has been objective, even sympathetic, but considerably restrained by Western standards.

A senior Soviet newspaper editor confirmed that he was under instructions not to devote too much space to the epoch-making events in East Germany and Czechoslovakia. He explained that the Soviet Union was anxious to avoid giving the slightest impression that it was interfering in the affairs of its allies. But an equally plausible explanation is that the Kremlin wants to protect its own citizens from the East European political virus.

Inevitably, Mr. Gorbachev's hands-off policy toward Eastern Europe has provoked rumblings of dissatisfaction from Communist Party hard-liners and Russian nationalists. But most analysts here

take the view that Soviet domestic problems have killed any enthusiasm for foreign entanglements.

"Psychologically and ideologically," said Oleg Bykov, deputy director of the Institute of World Economics and International Relations in Moscow, "some of the things that are happening in Eastern Europe are hard to swallow for people raised to take a dogmatic view of the world."

Since the death of Stalin in 1953, East European countries have tended to be out in front of the Soviet Union, both politically and economically. Managerial changes introduced here during the last two years were pioneered in Hungary in the 1970s. In the area of glasnost, or openness, Poland has always been far ahead of the Soviet Union.

It is only during the last couple of years that the Soviet Union has become a symbol of hope for the peoples of Eastern Europe. Mr. Gorbachev is the first Soviet leader whose name has been used by spontaneous crowds in East European capitals as a chant to turn their own Communist leaders.

Mr. Gorbachev is aware of the dangers. A recurring theme in his speeches is the need for a leader to be ahead of events. Indeed, his main criticism of the former East German leadership was that it had lost touch with the people — and failed to take decisive action to correct accumulated grievances.

In the last resort, the success or failure of perestroika is likely to depend on the economy. In order to succeed where his predecessors failed, Mr. Gorbachev needs to keep one step ahead not so much of developments in Eastern Europe, but of the mounting frustrations of the Soviet consumer.

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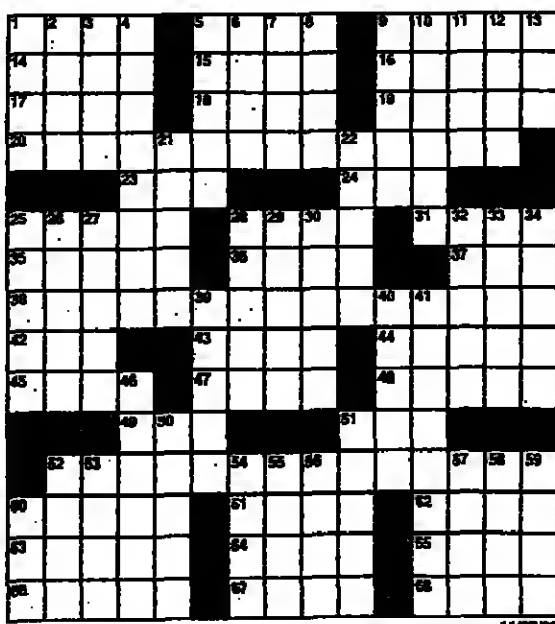
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- 18 Representative recording, to a deejay
- 19 Horatian verse form
- 20 Phrase in an old radio program
- 23 Boat propeller
- 24 — (King) Cole
- 25 Terrible
- 26 Opposed to weather
- 31 Quarrel
- 35 Participate
- 36 Bog's footing
- 37 W African native
- 38 Song from "The King and I"
- 42 Verb often used with you
- 43 Units
- 44 Century plant
- 45 Cozy place
- 47 Duffer's warning cry
- 48 Rooster, sometimes
- 49 Craft's relative
- 51 Decree
- 52 A Pulitzer Prize nonfiction work, 1986
- 60 Grottoes
- 61 Eye part

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- 2 Beehive State
- 3 Dawn, in Dijon
- 4 Show Me State
- 5 Fragrant coniferous tree
- 6 Limited
- 7 Car for an exec
- 8 Flat-bottomed boat
- 9 Sports site
- 10 Railroad stations
- 11 Enough, to Fitzgerald
- 12 English covered baskets
- 13 Gaffer's gadget
- 21 Compels one into court
- 22 Leg joints
- 25 Egyptian dam
- 26 "— or When," 1937 song
- 27 Pretends
- 28 — acids
- 29 Steamship
- 30 Expunge
- 32 Treadle
- 33 Higher than
- 34 Minaret, a.g.
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Solution to Friday's Puzzle

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ERDAS RANTS ELS

INTERNATIONAL Herald Tribune

Published with The New York Times and The Washington Post

First, a United Europe

The political earthquakes in Eastern Europe — now including the resignation of Milos Jakes's hard-line Communist regime in Prague — have aroused the long-buried issue of German reunification, a prospect that unsettles the allies of both Germans. Reunification, unlikely soon, will be palatable only in the context of a uniting Europe, not a resurgent German nationalism.

François Mitterrand convened the recent European Community summit meeting to consolidate progress toward European integration by 1992. The events in Germany give new reason for urgency. Anchored in the framework of the European Community, a larger Germany would be less of a threat to its neighbors. That may be the solution Mikhail Gorbachev has in mind when he says: "Now is not the time to break up established political and economic institutions. Let them be transformed."

Europeans already see that if the two Germanys are determined to reunify, no outsiders can prevent it; hence they had better prepare for it. As Mr. Mitterrand observes, if "the Germans want to be a single nation in a single state, this must be founded on the will of the German nation, and nobody can oppose it."

Adam Michnik, an adviser to Solidarity, questions whether "the existence of a second German state is good for Poland," but says a "common European home" may be one way to "cope with a reunified Germa-

ny." Do the Germans themselves want one Germany? The main East German opponents of the state's Communist Party want a social democracy far different from West Germany's socioeconomic system. West Germans almost certainly will not want to give up what they possess to accommodate to that vision.

Differences are likely to disappear if political parties in the East start to mirror their counterparts in the West. But that process will take a long time, affording welcome breathing space for the larger European framework to evolve first.

Europeans have dreamed of unity for almost as long as they have been fighting one another. But now the dream seems more tangible. Consider the words of Victor Hugo as quoted by Mr. Gorbachev in his recent speech to the Council of Europe in Strasbourg: "A day will come when you, France; you, Russia; you, Italy; you, Britain; and you, Germany — all of you, all nations of the Continent will merge tightly, without losing your identities and your remarkable originality, into some higher society and form a European fraternity . . . A day will come when markets, open to trade, and minds, open to ideas, will become the sole battlefield."

This is a vision of Europe that can embrace a closer association of the Germanys and a Continent freed from military blocs.

—THE NEW YORK TIMES

A Victory, and a Duty

With the resignations in Prague, orthodox Communist regimes have now fallen in five of the six countries that used to be called the Soviet satellites. Elections have been held in Poland and are promised for four other nations — Romania being the big holdout. There will be a lot of wrestling over the rules for these elections, but there is no question about the direction in which Eastern Europe is moving.

The great march for political freedom and radical change has now swept up Czechoslovakia, whose people have always considered themselves to embody the high traditions of Central European culture and technology — Central, not East European. Czechoslovakia, those inside the party as well as those outside, were not prepared to watch Europe reorganize itself without themselves a part of it.

Intensely dramatic though they have been, the recent events in Prague represent only the beginning of the transformation. As in East Germany, most of the people who have now come to power were faithful servants of the old order for years and are profoundly mistrusted by the reformers in the streets. That is why the reformers, in Prague and Bratislava as well as in Dresden and Leipzig, continue the demonstrations that are the engine of their cause.

But the recent weeks have also demonstrated, on an astonishing scale, dissent and loss of confidence within the ruling Communist parties. In Czechoslovakia as in East Germany and even Bulgaria, the process of

disaffection had gone much further than most outsiders would have believed possible. It has been clearly visible for some time in Hungary and Poland. Many longtime Communists are now prepared to say openly that their critics and opponents have been essentially right.

The Romanian dictator, Nicolae Ceausescu, claims to believe that his country is immune to all these troubling thoughts as it sinks increasingly into poverty. He has just awarded himself five more years of power, in the kind of election that for the past 40 years has brought Eastern Europe contempt and derision. It leaves him in total isolation.

The West has won a great victory, according to the current wisdom, and does not know what to do with it. That is wrong. The victory belongs less to the West than to the people of Eastern Europe. What they do with it is up to them. Democracy and self-determination are, after all, the point of this whole tremendous movement.

The West's immediate responsibility is to see that new and inexperienced reform governments do not come to grief in economic crises. Some aid is on its way, and more will be needed. Beyond that, the West has an obligation to see that its markets and its financing are open to the East Europeans. They will need, in particular, access to Western Europe's common market. They have earned the West's respect and its support for the growing freedom that they have won by marching in the streets.

—THE WASHINGTON POST

Threat From Beijing

Beijing is now threatening the United States with retaliation for a bill that Congress has passed. But the greater outrage is President Bush's apparent intention to give in to that threat. Administration officials have suggested that Mr. Bush will accommodate China by vetoing the bill.

More than 40,000 Chinese students are in the United States, most of them on visas that require them to return home once their studies are over. Many of these students vigorously supported the movement toward democracy earlier this year, taking part in demonstrations and other political action in America that brought them to the notice of the Chinese authorities. Some of these students called for the overthrow of their government; they have reason to be apprehensive about returning home. Congress has sent to Mr. Bush legislation that would suspend the requirement forcing them to go back.

Under normal circumstances, that kind of requirement is reasonable enough. It slows the brain drain. It says that students trained in the United States have an obligation to return to their native countries. But after the massacre in Beijing in June, circumstances are not normal. The Chinese government has said that it will deal leniently with those students who demon-

strated against it in America. But there is a "re-education" campaign in progress in Chinese universities, and those who return are not likely to find that their past activities have been forgotten.

Mr. Bush's inclination to accommodate the Chinese government is incomprehensible. To defend it, people in his administration explain that China otherwise may cut off the exchanges of students and teachers between the two countries.

Too bad. If, in other words, the United States does not send these students home for political correction, China will refuse to send more of its young people to America to study computer science, medicine, and electrical engineering. It will refuse to allow American professors to teach in Chinese universities. That is some threat.

China needs to understand that, with its crackdown on democracy and dissent, it has done enormous damage to the spirit of cooperation that was growing between it and the United States. As long as that government is in its present vindictive state of mind, Mr. Bush needs to think very carefully before forcing anyone to return there. To veto this bill would be an astounding acquiescence in Chinese repression.

—THE WASHINGTON POST

Other Comment

India: Break in the Dynasty?

The odds are shortening on a second interruption in the dynastic rule founded by Jawaharlal Nehru and continued through his daughter Indira Gandhi and his grandson Rajiv Gandhi. But whoever wins the latest elections, India, already the major player in South Asia, is likely to develop a greater role in the region. By early next century, India is certain to overtake China as the world's most populous country. India is struggling to manage the population it has; tomorrow, the accelerating burden on the country's resources threatens to fuel communal tensions.

However, India has a resilient economy, with a comparatively high growth rate and substantial industrial capacity. Attempts to liberalize the economic structures are slow-

ly starting to take effect. India offers a huge market, one with an established, relatively affluent middle class, with a sizable pool of expertise, especially in science and technology, and with a business bias. The current elections may end in a deadlock that will require a coalition with a communist party, but this is unlikely to cause a profound shift in domestic or international policies. The leading opposition grouping, Janata Dal, and Mr. Gandhi's Congress (I) Party can barely be separated on policies.

The growth of the Indian military machine has aroused anxiety among India's neighbors. Its army of 1.2 million is the third-largest in the world. But its size reflects India's grasping for greater prestige as much as any territorial ambitions.

—The Australian Financial Review

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OPINION

For Gorbachev, a Crisis With No Solution

By Peter Reddaway
This is the first of two articles.

WASHINGTON — In the world of Mikhail Gorbachev, history is marching backward. The forces of nationalism and religion are rising, the socialist dominions of Eastern Europe are falling and a growing number of Soviet republics are in turmoil. Communist economics are an acknowledged failure, a winter of discontent is at hand and much of the party's self-serving history is now a grudgingly admitted lie. The result is that the Soviet regime is going through a profound crisis of legitimacy.

It is a crisis with no apparent resolution. In contrast to the peoples of Poland, Hungary and East Germany, the Soviet people have not yet internalized the values needed for negotiating the rocky road to democracy and free markets.

Mr. Gorbachev calls perestroika a revolution, and some domestic groups have taken him at his word, going well beyond what he wants. But most Soviet citizens are being asked to run before they can walk. In the process, tremendous social confusion, disorder and economic decline have set in. It would be difficult in the best of circumstances for the Kremlin to get out of this situation. But given the tyranny and deception Mr. Gorbachev inherited from the Stalinist past, his task approaches the impossible.

What then is the near-term Soviet future? The following essay represents my best guesses.

Mikhail Gorbachev is obviously at the center of that Soviet future, at least for the next few months or even years. But the evidence suggests that his real as opposed to formal authority is sinking, not only among the demoralized political elite, but in liberal circles and among the increasingly disillusioned Soviet people.

The immediate prospects are grim, and the long-term prospects are even grimmer. There is no evidence that the system can be successfully revitalized under Communist leadership.

The bold attempt to transfer power and authority to the soviets — the popularly elected councils — is faltering; the party increasingly sees these bodies as a threat. Nor can the system middle through, implementing a viable perestroika and managing popular unrest. Developments within the Soviet Union are too volatile for that, and the dem-

ocratic revolutionaries of Eastern Europe can only increase that volatility by inspiring non-communist and anti-communist groups in the Soviet Union by their example.

Beyond the supply shortages, social disorder, ethnic strife, strikes and mushrooming crime that are already visible, the almost inevitable major power clashes.

Just last month, according to a report in The Washington Post, Mr. Gorbachev privately warned the United States "that he may be obliged to take steps that seem inconsistent with his goal of democratizing Soviet society."

This is not surprising. For several months liberal intellectuals have been floating the idea that the economic and political situations are so threatening that Mr. Gorbachev

wide popular support that would enable him to crack down. Gaining a nod of toleration from President Bush is probably a Gorbachev goal for the coming Malta summit.

What options is Mr. Gorbachev likely to be considering? His recent initial steps of ordering the MVD (internal police) riot units to deal more roughly with selected demonstrations, and of hectoring liberal editors and intellectuals for two hours on Oct. 13, may have heartened conservatives and Russian nationalists, but they will not more than temporarily intimidate the liberals and dissidents.

How then might Mr. Gorbachev escalate? He might remove a few liberal editors or close down a publication or two, or break a strike or an important demonstration with vio-

But such half-measures almost certainly would backfire. They would provoke outrage from all the opposition groups and create concern abroad, but they would not solve — and would probably exacerbate — all the real problems.

Could Mr. Gorbachev launch the sort of all-out offensive against dissent and opposition that the conservatives have long been calling for? Probably not. That would destroy his own perestroika, and the conservatives might soon replace him with a more credible and trustworthy "counterrevolutionary."

Mr. Gorbachev is probably in little short-term danger from the incipient conservative backlash. Conservatives at present have no credible leader and no credible program. Yegor Ligachev, the best-known hardliner, is 69, widely discredited with the public and too cautious to lead a coup. And conservatives in all institutions have been repeatedly knocked off balance by Mr. Gorbachev's political, military, and economic moves.

The military has weak leaders and has been placed on the defensive by a range of Gorbachev initiatives for military reform. It is unpopular with much of the public. Since its involvement in the Tbilisi killings of April 9, when 20 demonstrators were killed in the Georgian capital, the army has been saying that it should never again be used for internal policing purposes unless the Supreme Soviet approves.

As for the KGB, its head, Vladimir Kryuchkov, is carrying out pro-Gorbachev policies and successfully controlling the growing conservative discontent in his ranks. The MVD is likewise in apparently pro-Gorbachev hands, and the head of its "internal troops" recently announced that these troops will never be used to break up strikes. He also said his troops number only 36,000 but will rise to 62,700 over two years (evidently by hiring KGB border guards, whose numbers are being cut).

Forty-four percent of the current forces, he said, are now deployed in the Transcaucasus alone. It seems evident that the crucial element for a major crackdown — plenty of MVD troops — is not now available.

The writer is a professor of political science and international affairs at George Washington University. He contributed this comment to The Washington Post.



The immediate prospects are grim, and the long-term prospects are even grimmer.

ought to be given temporary special powers so that he can restore order, outlaw strikes, force people to tighten their belts and reverse the dangerous centrifugal forces at work in the republics.

If this has been happening with Mr. Gorbachev's encouragement, it indicates that although he possesses an enormous amount of formal authority, he may feel that he lacks the

ence and arrests. Or he might order the arrest of opposition leaders around the country. He might seek special powers from the Supreme Soviet and declare a state of emergency in more areas than the currently affected Armenia, Azerbaijan, Uzbekistan and Moldova. Or — an extreme step — he could pose some or all of the approaching local and republic-level elections,

China's Sagging Economy Is on the Reformers' Side

By Eric J. Ritter

SINGAPORE — While conservatives in China have gained the upper hand since the crackdown on the pro-democracy movement in June, economic forces are at work that seem likely to undermine their grip on power and pave the way for the return of reformers.

A credit squeeze imposed by the government has had its intended effect. If the official figures are to be believed, inflation has dropped from an annual rate of nearly 30 percent in February to 13 percent in September. Bank loans, investment, industrial output and retail sales have fallen significantly. Inflationary expectations, few and far between, have been lowered.

But it is doubtful that the slowdown, which is really stagnation — slower growth with inflation — will help. With state enterprises racking up large losses as a result of less growth and reduced consumption, the banking system inevitably will face a substantial increase in bad debts.

The Chinese press has noted that losses by state companies doubled from January to October. The state will have to bail out mismanaged and underperforming enterprises. Coupled with large payments that must be made to farmers to maintain production, this will lead to an expanding budget deficit.

The government has tried to increase its revenue by introducing a range of taxes on private entrepreneurs and state employees. The amount and rate of the Chinese currency known as renminbi, or RMB, that foreigners can convert into foreign exchange has been cut.

Beijing is removing power from the provinces by reasserting its control over foreign exchange and tax revenues. But these measures cannot be sustained. They will only suppress economic growth and reduce revenue.

Recent steps, such as dismissing the governor of Hainan Island and banning land sales to foreigners, will discourage foreign investment, further undermine tourism and worsen the economic crisis. To fund its budget deficit, China will have little choice but to print money. This will cause inflation and lead to devaluation of the RMB, unless exports are expanded and imports curbed sufficiently to achieve a healthy surplus in the balance of payments.

But the most likely outcome is an inflationary surge. Living standards will erode and there will be a revival of public dissatisfaction with the leadership. The outcasts who would wield power in Beijing are preoccupied with trying to hold it. They are unlikely to be able to resolve the emerging economic problems.

Slow growth, stagnant production and exports, and persistently high inflation will have a corrosive effect on the politics of China. Economic deterioration is the real challenge to the political legitimacy of today's leaders.

The writer is a Singapore-based economist with Baring Far East Securities Ltd. He contributed this view to the International Herald Tribune.

Letter to a Beijing Student

By Seth Goldman

MY DEAR FRIEND: When I saw your letter in my mailbox I was thankful but afraid. It is only the second communication I have received from China since the crackdown in Beijing; apparently none of my students was killed. But I know you cannot have the same hope for the future you once had.

In your letter you asked my ideas about the "Report About the June 4 Event" that you and your classmates have been told you must write. You, like most Chinese students, want to be successful and, if possible, help your country. But at what cost? To accept the official story makes you comrades with those who did the killing rather than with those who died.

So although my understanding of what happened in June may not be too different from yours, I am able to write about mine and you are not. In June, Mao Zedong finally got his revenge on Deng Xiaoping. Over the past decade, Deng made his best efforts to dismantle the economic and ideological chains that held China back. But Mao's political system remained intact — a system that placed too much power in too few hands. As the economy expanded and people experienced the growing pains of inflation, corruption and rationing, there were no institutions through which they could press peacefully for change.

Unions, independent political groups, a strong legal system or independent newspapers can serve as buffers between the people and the state. When you and your classmates were upset about your horrible living conditions and the lack of money and re-

spect given to intellectuals, you had no way to express your anger, until finally you became so mad you marched on Tiananmen Square. When the students challenged Deng's own power, he relied on the same Maoist system he had been trying to undo. Deng could not hide from Mao.

Here in Moscow, the opposite problem exists. Perestroika has led to the creation of independent political groups, democratic forums and a more open press. But it has damaged an economy already so weak that the people have lost faith in their leaders.

When two mountain climbers are tied to each other, one cannot move too far ahead or his partner will not be able to break his fall. Similarly, economic progress cannot move too quickly without political reform to support it. The democratic initiatives of perestroika will not save the Soviet Union from falling if basic economic demands cannot be satisfied.

For most students of your generation, the memories you have of the Cultural Revolution are of the parades and the enormous Mao buttons you wore on your school uniforms. For your parents, those were years of terror and purges that destroyed the trust and harmony of your country.

But your generation lacked your parents' fear. You dared to protest while they only dared to hope. Now your generation also knows fear. I pray that China will not have to wait for your children to come of age before it can change.

Because your country traditionally values harmony so much, the phrase, "May you live in interesting times," is often used as a curse. Yet when I consider your limited hopes under the current regime, I can only say: May you live in interesting times. Sincerely, Seth.

The writer taught English and American politics at the Foreign Affairs College in Beijing last year. He now teaches American politics at the Soviet Diplomatic Academy and is working on a book, "The Bear's Jaw and the Dragon's Tail." He contributed this view to the International Herald Tribune.

100, 75 AND 50 YEARS AGO

1889: Tax on Foreigners?

PARIS — M. Lalou, Deputy for Dunkirk, has proposed a law by which any foreigner residing in France shall pay an annual tax of 24fr.; any foreigner born out of and living in France shall be subject, between the ages of twenty-one and forty-five, to the military tax of the law of July, 1889, and any employer having foreign workmen, must make a declaration to that effect and pay a tax of 50fr. per annum. With the population of France daily decreasing, M. Lalou's bill is scarcely likely to meet with much success.

1914: Zeppelin Threat

LONDON — Count Zeppelin is driving an army of workmen night and day to complete a new fleet of Zeppelin airships in order to invade London. Of course, if the Zeppelins don't reach London, the Kaiser will be content to terrorize Dover, Llandudno or Aberystwyth. London re-

November's Revolution: A New Light

By Anthony Lewis

DALLAS — These incredible days of November 1989 have been crowded with political wonders. But for me nothing could equal the emotions of the moment when Alexander Dubcek stood before 300,000 people in Wenceslas Square, Prague, and said, "I am among you again."

There was that remembered face, the shy half-smile, the voice not of an orator but of an ordinary man.

He was speaking to the public in Czechoslovakia's capital for the first time since Aug. 27, 1968 — when his attempt to create "socialism with a human face" had been overwhelmed by a Soviet-led invasion.

The crushing of the "Prague Spring" was more than just another example of totalitarianism. It dashed the hopes of millions around the world that, after Stalin, the Soviet Union would tolerate change in its satellites.

Leonid Brezhnev declared the doctrine that any country once in the communist system would not be allowed to change. Memories of that bleak time come to mind.

Mr. Dubcek and his colleagues in the Czechoslovak leadership were flown to Moscow, humiliated, forced to sign an agreement. Then they were taken to a plane to fly back to Prague.

But one of them was missing: Edward Goldsteiner, a professor of literature and an inspirer of the reform movement. The Russians told the others to forget "that Jew." Mr. Dubcek refused to leave without him.

Eventually Mr. Goldsteiner was produced and flew home with the others. In time he escaped to Britain and became a professor at Sussex University. In 1974 he was stripped of his Czechoslovak citizenship: a wrong waiting to be righted.

When the night fell, silence came with it. The puppet government in Prague did all it could to keep the truth from being spoken.

I remember Henry Kamm of The New York Times, at a hotel that he managed to keep operating, sending out the facts of what the quibbling and the cooperators were doing. The repression was undiminished for 20 years.

The people of Czechoslovakia mostly played the part of the Good Soldier Schweik, their fictional hero who survived by being unheroic. But there were those who challenged the tyranny even in the worst of times.

Vaclav Havel, the playwright, was repeatedly imprisoned. He and other intellectuals — a brave handful — published Charter 77, a declaration of human rights, in January 1977.

In the stunning rush of events this month, intellectuals and artists and students played a leading part. Mr. Havel, now a political figure himself, spoke for the protest movement. Again information was crucial.

The Communist leadership did all it could to keep the news of mass demonstrations in Prague from spreading. Security police occupied the national television studios. But some reports did get on television, and student posters and flyers passed the word.

The regime's brutality helped to destroy it in the end. Police beating of students in Nov. 17 aroused long-suppressed outrage. Just a week later the Politburo resigned.

The Czechs and Slovaks were no longer Good Soldier Schweiks. But of course none of those factors — intellectuals, the press, police brutality — would have mattered without Mikhail Gorbachev.

If any doubt remained that he has abandoned the Brezhnev Doctrine, it surely has ended now.

He has decided that his country's real interest — its economic survival — lies in relationships with the West, not in domination of sullen satellites. The story is not over in Czechoslovakia. The Stalinists will try to ways to maintain their grip. But there is real hope now.

Mr. Dubcek, living for years in obscurity, could hardly have hoped to see the cruelty of August 1968 undone. But that is what has happened: not just change but a deliberate declaration of the Prague Spring's legitimacy.

"That was the first perestroika," a novelist and member of the Soviet Parliament, Danil Granin, wrote last week in Moscow News. "We crushed and shattered that perestroika. It was collective murder."

The November Revolution in Eastern Europe: It is a signal to illegitimate rulers everywhere that human beings cannot be made to forget the meaning of freedom.

In Wenceslas Square, Alexander Dubcek quoted an "old wise man" as saying: "If there once was light, why should there be darkness again?"

The New York Times

Banking and Finance in France

Banks Set Sights on '92 Market

By John Phillips

PARIS — French banks are scrambling to expand in a pan-European fashion as 1992 approaches, enhancing the status of Paris as at least the largest financial center in the European Community after London and Frankfurt.

Bankers and the Socialist government, readying for the advent of a single European market, have set aside many of their differences that degenerated last year into undignified squabbling over the price of credit cards and other consumer issues.

Nevertheless, some discord between the banks and the government persists. There is evident reluctance by Finance Minister Pierre Bérégovoy to alienate Socialist voters by tackling sensitive issues such as charges for checking accounts.

The French banks, with certain exceptions, seem to feel rather threatened by the deregulation of banking in Europe," says a recent report by Shearson Lehman Hutton Securities.

"This is good and has caused them to push hard to get their houses in order."

French institutions have been furiously trying to construct networks of European commercial banks.

• Crédit Agricole also has been active across the Alps. The "Green Bank" has acquired a controlling stake of 13 percent in the Nuovo Banco Ambrosiano, which is soon to become the largest private bank in Italy.

• The state-run Banque Nationale de Paris acquired a 2-percent share in Credito Romagnolo following a cooperation agreement between the two banks.

• Société Générale boosted its fund management position recently by acquiring Britain's Touche Renneaux group.

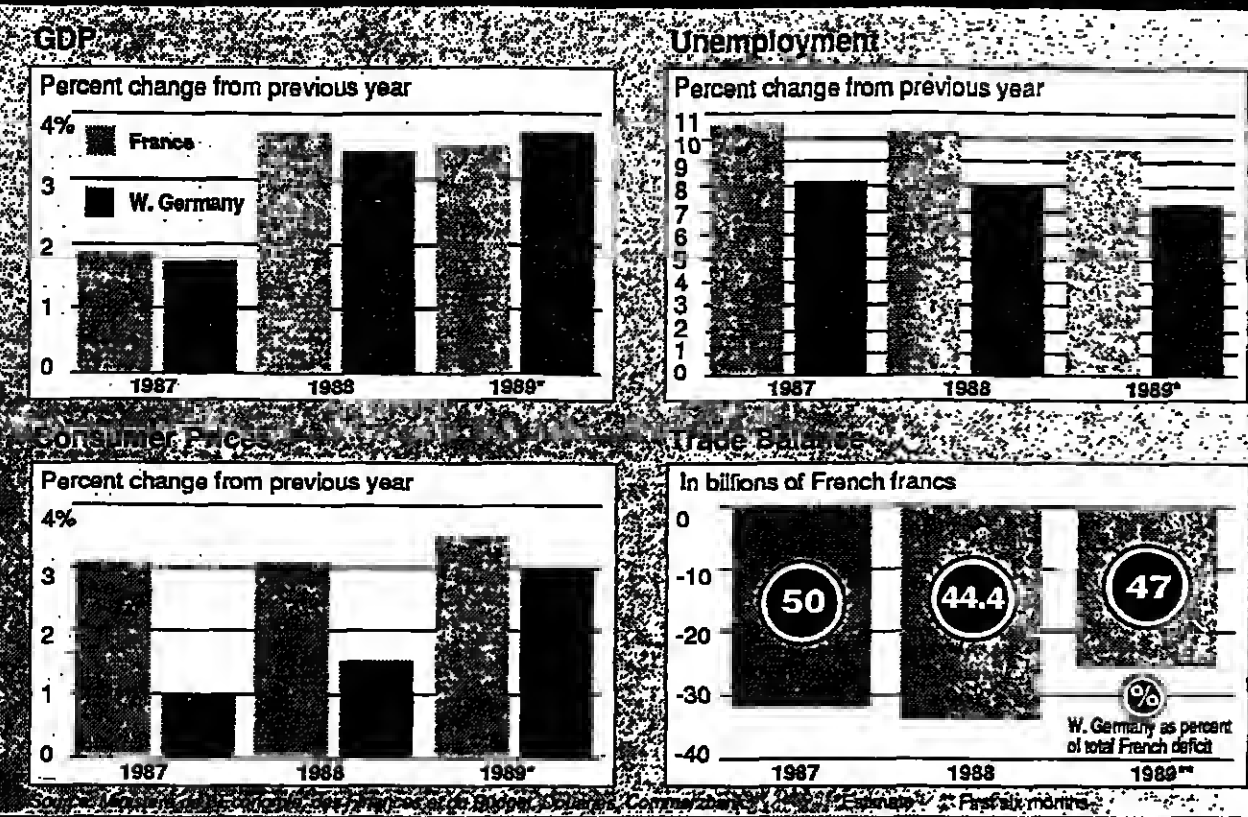
• Banque Indosuez, owned by the aggressive Indosuez conglomerate, has bought a 24.5 percent share of the London merchant bank Morgan Grenfell.

Despite this flurry of activity, banking experts still question whether the big banks have the potential for the sustained European expansion that Prime Minister Michel Rocard wants them to take.

The Cooke Committee at Basel, a Bank for

Continued on page 10

The French Economy: Emerging From the Crisis



Stability Bolsters Government Bonds

By John J. Duffy

PARIS — After years of preaching the virtues of French government bonds to the deaf ears of international investors, the French Treasury has finally begun to get some respect.

Backed by a steady stream of data showing moderate economic growth and gradually falling inflation, the Treasury's drive to turn the franc into a true investment currency appears to be meeting with success. Financial markets, analysts say, have finally come to believe the myth of the hard franc.

"It's only in the past three years that international investors would have dreamed of getting into the French market," said Jim O'Neil, an economist at Swiss Bank Corp. in London.

Concern has traditionally focused on the strength of the French economy and on inflation, both of which have been seen as misty enough to be potentially damaging to the value of the franc.

But Mr. O'Neil notes that 1990 is likely to be something of a milestone for the French market because inflation in France is expected to fall below that in West Germany — the bellwether European economy — for the first time in decades.

Swiss Bank Corp. predicts that French inflation will average 2.5 percent next year compared with 3 percent in West Germany.

And while the French economic outlook appears stable, worries about the outlook for West Germany inflation have grown, with the dramatic opening of its borders with East Germany and the flood of millions of immigrants and visitors to the West.

Since East Germany threw open the Berlin Wall on Nov. 9, German government bonds have plunged on inflation fears. The price fall has caused the yield differential between 10-year French and German government bonds to narrow from about 190 basis points a month ago to about 160 basis points currently.

In the mid-1980s, analysts noted, yields on French bonds rarely came within 250 basis

points of their West German equivalents, largely because of a lack of confidence in the franc.

But many analysts now expect the differential, which is seen as a crucial measure of international investor confidence in the relative economic outlook for both countries, to narrow to less than 100 basis points in the months ahead.

The sudden shift in the West German inflation outlook has also eased pressure for a realignment of currencies within the exchange rate mechanism of the European Monetary System.

The West German central bank, the Bundesbank, has been quietly but persistently pressuring France to accept a devaluation of the franc against the Deutsche mark because it views the mark as undervalued, and therefore inflationary.

But if there was any doubt about French resistance to such a move, it evaporated in

Continued on page 11

Sturdy Growth Puts A Brake on Malaise

Wage Restraints Are Widely Seen As Key to Steady Recovery Since '82

By Reginald Dale

PARIS — After two years of sturdy growth, French economists and opinion makers are asking with increasing insistence whether the country is finally emerging from *la crise* — the prolonged period of national malaise and economic uncertainty that began some time in the late 1970s.

Many on the left, and especially in the trade unions, would argue that the country's economic and industrial crisis is indeed over, and that it is now time to share the fruits of recovery in the form of faster wage packages for the workers who have patiently suffered seven lean years of austerity.

The Socialist government of Prime Minister Michel Rocard, and most leading economists, are not so sure.

"Two years ago, we were wondering about national decline. Today we're discussing the end of the crisis. That's a quick turnaround," Michel Aglietta, an economics professor at the University of Nanterre, told the newspaper *Le Monde* last week.

"Personally," he added, "I don't think anyone can claim that durable growth is henceforth established, just as I didn't accept the idea of decline two years ago."

Government forecasts suggest that the economy, after growing by a rapid 3.7 percent last year, will continue forging ahead at around 3.5 percent this year and settle down to a still healthy 3 percent in 1990.

"There is less sense of crisis today in France than at any time in the past decade," said J. Paul Horne, Smith Barney's Paris-based international economist. "But I am concerned that they're lowering their guard too soon" by letting wages and prices rise too fast.

Wage restraint is widely seen as one of the keys to France's steady recovery since 1982, the time of President François Mitterrand's sudden conversion from dogmatic socialism to more conventional free market economic policies.

But rumbling unrest in the public sector has kept up the pressure on the government this autumn, and many economists fear that all the good work could easily be wasted if the government lets up too soon.

"This year Mitterrand and Rocard seem to be forgetting the lessons of earlier years and letting the public sector romp off with excessive wage increases," Mr. Horne said.

Although wage negotiations are still under way, public sector salaries could rise by 4.8 percent this year and next, after a 3.6 percent increase in 1988, according to the Observatoire Français des Conjonctures Economiques (OFCE), a government-subsidized but independent economic research and forecasting organization.

Edouard Balladur, finance minister in the right-wing government that lost power in May last year, admits that things are generally going pretty well under the guidance of his successor, Pierre Bérégovoy. But he adds some major qualifications.

"The economic situation is good," Mr. Balladur says in his latest newsletter. "We are returning to growth, prices are being maintained and investment is at an encouraging level."

"Does that mean we can talk about the end of the crisis? The country's two and a half million unemployed surely don't think so. We still have to make plenty of collective effort to surmount the crisis and be able to fight on equal terms with our principal trading partners."

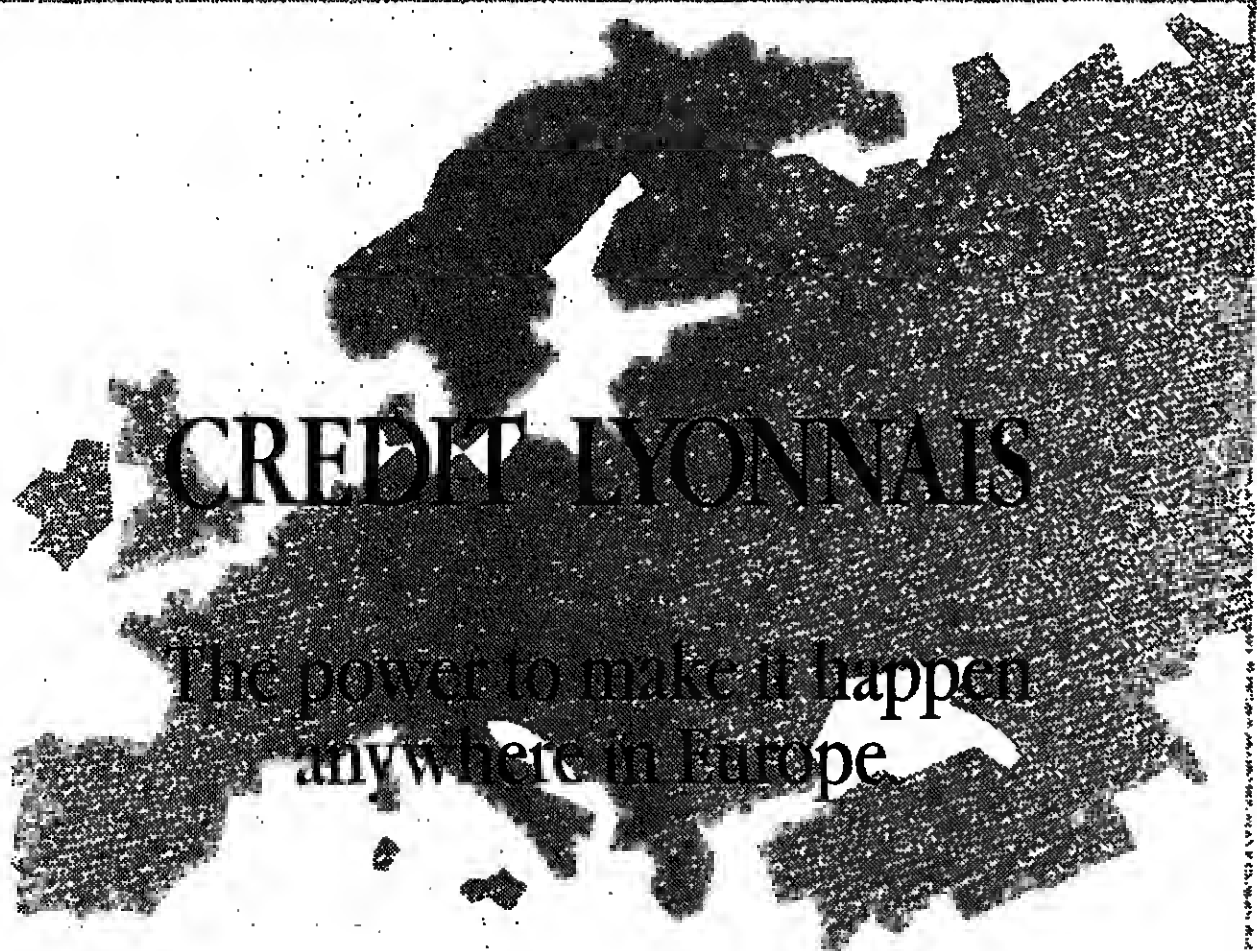
W HAT particularly concerns Mr. Balladur is that the French tax and social security burden is still too high — with the government collecting more than 44 percent of the nation's wealth, against less than 38 percent in West Germany. "In the European race, France is setting out with a handicap," he says.

All these comments are fairly indicative of the mainstream view of the French economy as the Revolutionary Bicentennial Year of 1989 draws to a close. The consensus is that in Mr. Balladur's "European race," France is doing better than its old rival, Britain, but not yet quite as well as its new rival, West Germany.

And while the economy has improved remarkably over the last seven years, and especially in the last two, it is not yet out of the woods.

That is also broadly the view of the Rocard government, which tends to be more frank

Continued on page 11



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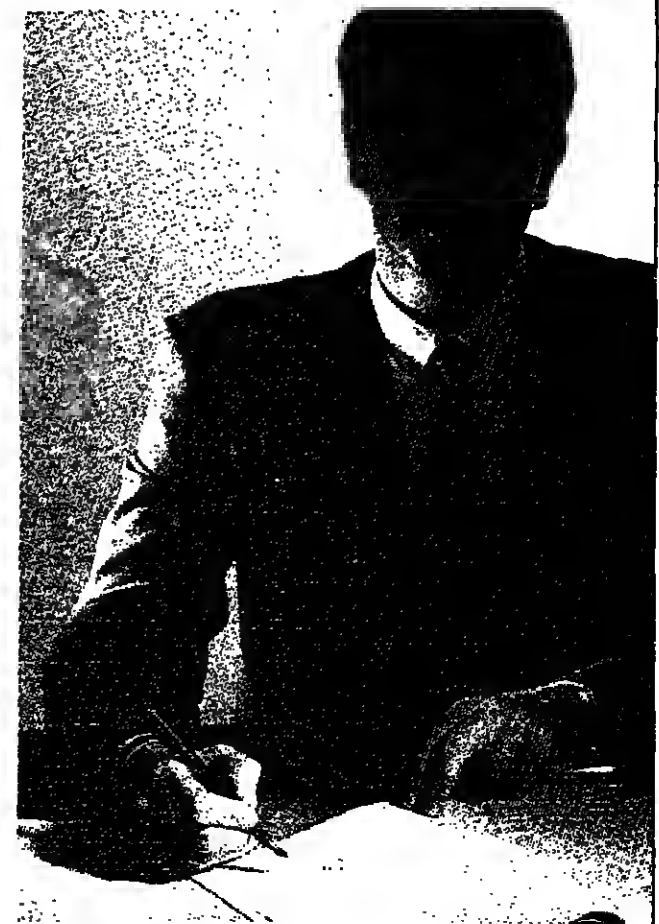
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Insurers, Bankers Test Alliances

By Julie Sell

PARIS — Eight months after Banque Nationale de Paris and Union des Assurances de Paris forged an alliance, evidence of growing ties between the banking and insurance sectors, the two state-owned concerns are preparing to test some of the link-up's potential benefits on their customers.

A joint marketing program, scheduled for launch this month, has been developed to test the feasibility of using the bank's retail network to sell insurance products, and to market some financial products through UAP branches.

But cross-marketing is only one goal of the companies involved, according to analysts. The benefits of such marketing are likely to be greater for UAP than BNP, they said, but the bank stands to gain a longer-term strategic advantage from the link-up in relation to capital-adequacy requirements.

The BNP-UAP alliance is also another step in a European trend toward closer relations in the banking and insurance sectors. The most prominent French example of this was the takeover of Crédit Industriel et Commercial, a federation of relatively autonomous regional banks, by Groupe des Assurances Nationales (GAN), the third largest insurer. Analysts said it was still too early to judge the impact of that alliance.

BNP and UAP had sought the creation of a joint holding company to control both of them, but that plan was scaled back at the government's insistence. Instead, they agreed upon a swap of 10 percent stakes in each other.

Bruno Roche, a French equities analyst with Salomon Brothers in London, said the most important benefit UAP can gain from the link-up is an alternative to the traditional insurance distribution system in France. Under the system, insurance companies have ties with exclusive agents who are supposed to distribute only that company's products.

Many consider it an inefficient and expensive way to do business. According to Mr. Roche, about 18 percent of insurance premiums in French state-owned insurance companies go toward distribution costs.

BANKING networks could provide a good outlet for marketing products like life insurance, which involves long-term risk and is closely linked to interest rates.

"For an insurance company, it's quite an advantage to have an alternative distribution network," he said. But products like auto insurance, which requires frequent follow-up contact with customers, are less suited to marketing by banks, he noted.

The bank, too, can gain from cross-marketing.

"As customers get more sophisticated, they're increasingly using their savings to buy insurance products or investment products rather than using bank accounts," said Stephen Lewis, European banking analyst at Salomon Brothers. Since banks' market share of national savings is decreasing, he said, they can use alliances to breathe new life into their business.

A separate, potentially more important ben-

efit of the alliance for the state-owned bank is the improvement in BNP's capital level regarding international requirements on banks' capital-adequacy levels.

Under a 1988 agreement adopted by bank regulators from 12 industrialized nations, uniform standards were established for measuring banks' capital and risk exposure. The bank supervisors agreed on a two-tier system for defining equity capital that requires at least half of a bank's capital to consist of Tier 1 "core capital" — shares and disclosed reserves.

The idea is to put all European banks on "a level playing field" on a capital basis by 1992, said Alastair France, division director for European research at CL Alexanders Laing & Cruickshank.

French state-owned banks are severely limited in the ways they can augment their capital to meet the new standard, which calls for equity capital to equal at least 8 percent of their risk-weighted assets by 1992.

Since both BNP and Crédit Lyonnais, another nationalized French bank, have issued the maximum amount of nonvoting investments to the public allowed under French rules, their options to further increase capital appear limited to privatization or increased funding from the government. Neither appears likely in the near future.

In its own effort to circumvent restraints on public capital-raising, Crédit Lyonnais said last month it planned a cross-holding alliance with Thomson-CSF, France's state-controlled defense group. Under the initial stage of the

plan, Thomson would own about 14 percent of the bank's capital, in return for Crédit Lyonnais taking 50 percent of Thomson's subsidiary.

Under the second stage, Crédit Lyonnais would be able to increase its stake in Thomson-CSF Finance, but Thomson's stake in the bank would not change during a three-year period.

THE day after Crédit Lyonnais and Thomson unveiled their plan, BNP surprised many in the financial community by stating that it was prepared to make a counteroffer for Thomson-CSF. BNP complained that although it was "the Thomson group's traditional bank," it had not been informed of the deal with Crédit Lyonnais.

According to Mr. Roche, the agreement between Crédit Lyonnais and Thomson, which had been under negotiation for about nine months, "had a strong impact" on the decision last March of Finance Minister Pierre Bérégovoy to clear the way for the alliance between UAP and BNP.

The analyst characterized the minister's approval for UAP and BNP as a kind of consolation prize for BNP, which he said was jockeying behind the scenes months ago for the partnership with Thomson.

Mr. Roche said the BNP-UAP alliance, though not as close as the companies would have liked, is favorable from the government's point of view.

In addition to helping BNP with its capital problems, the alliance helps bolster the size of

France's Top Ten Banks

(By deposits, in billions of U.S. dollars)	
BNP	158
Crédit Lyonnais	148
Crédit Agricole	142
Société Générale	123
Paribas	62
Groupe des Banques Populaires	40
Crédit Commercial de France	25.6
BFCE	18.4
Crédit du Nord	16.6
Crédit du Midi	15
Caisse Centrale des Banques Populaires	

UAP, an insurance company that is the largest in France but is not a giant by international standards. UAP is "not big enough to compete in Europe," the analyst said, partly due to years of state protection of the insurance industry.

JULIE SELL is on the staff of the International Herald Tribune.

A New Awakening To Capital Markets

By Yves M. Laulan

PARIS — The French banking system, once dubbed the steel industry of tomorrow, might more realistically be compared today to coal mining. Easy digging is drying up whereas future output will require more strenuous efforts and inventiveness.

French banks, after a long period of cozy slumbering behind a highly protected market and rigid bank practices, have gone a long way toward adjusting to modern banking and integration into the international capital market. In the wake of the Banking Law of January 1984, most curious anomalies inherited from the past that made the French banking system an oddity have been corrected.

The giant bank, Crédit Agricole, or the no less formidable Caisse d'Épargne, sav-

gimicks, to build up capital in order to meet the new European risk-asset ratio of 8 percent? The fact that young, and not so young, brilliant technocrats are still likely to be appointed to jobs of high responsibility in state-owned banks will hardly offset the lack of equity.

Another open question is how to reshape the clumsy super-giant public bank, the Caisse des Dépôts et Consignations, which collects the greater part of the proceeds of the Livret A savings accounts and appears somewhat at a loss as to what it is supposed to do. Besides that, there are just too many bank branches and too many small and medium-sized banks.

This situation strongly suggests that the vast movement of concentration already under way will accelerate, mostly through mergers and acquisitions — and probably under the pressure of foreign banks eager to snap up a larger share of the French market. Moreover, some alarms have recently been sounded, prompting the Banque de France to tighten various controls.

For the time being, the most pressing problem facing bank managers is the dwindling harvest of domestic business opportunities, which, in turn, triggers a frantic search for new niche markets.

After the bitter disappointments of international banking in the 1970s, the banks have watched with awe the drying-up of profits derived from large and medium-sized corporations, due in part to a switch away from bank credits to securities issues. Added to that is the ever growing cost of collecting resources through the exceedingly successful money-market funds of various species, while cost-free current account deposits are rapidly shrinking.

Bankers are allowed to compete freely on lending conditions and on interest paid on time deposits, while exchange controls have been removed. These various measures have infused a new spirit of competition among banks.

However, with the EC single market looming ahead, it is probable that rules regulating banking will need further streamlining in various areas such as whether to apply — or not — value added tax to banks, a hotly debated issue within the profession. Other issues include how to deal with bad-debt provisions, and whether specialized financial establishments such as Crédit National or Crédit Foncier should not be transformed into ordinary banks.

Indeed, the sweeping deregulation process that rejuvenated French banks has left snags that might call for further reforms. A case in point is the half-baked privatization program of the three largest banks, which has, so far, privatized Société Générale only, leaving Crédit Lyonnais and BNP under state control.

Will the fact that Société Générale has vigorously fought to retain its independence as a private bank be an asset or a liability in the future? How will the state-owned banks manage, by means other than

This is a cause for serious concern, all the more so the notion that clients should be charged for checking account services has yet to penetrate Gallic minds. The effects of this are made worse by the fact that the French payment system is still largely paper-based and therefore costly.

An additional difficulty is that the period of easy returns gained out of the financial service industry such as commissions on securities issues, mergers and acquisitions, even profits derived from fund management, is clearly over. These developments raise a challenge to the many newly created money market banks, or simply to older commercial banks that used to offset the dwindling proceeds from their traditional lending activities with such resources.

All these developments indicate, painfully, that there is no easy alternative to tightening up financial bolts and nuts so as to meet the rigorous professional standards of banking in the 1990s.

YVES M. LAULAN is general manager of Crédit Municipal de Paris.

Banks Set Sights on '92 Single Market

Continued from page 9

International Settlements body, has proposed a target of an 8 percent capital-to-assets ratio.

The Commission Bancaire, an independent watchdog agency that supervises the banking system, says that French banks "on average" are on target, though 10 to 15 banks are below the requisite 8 percent.

The commission avows it is confident that all will satisfy the minimum by 1992.

Yet Shearson Lehman Hutton Securities' survey estimates that the three biggest banks all have some way to go.

The BNP ratio of total capital to weighted risk assets was estimated at 7.5 percent, and that of Crédit Lyonnais and Société Générale around 7 percent. This compared with Compagnie Bancaire (12 percent) and Paribas (9.1 percent). The French average for big banks was 8.5 percent compared to 12 percent in Switzerland, 10.9 percent in Britain and 10.7 percent in Spain.

Some of the large state-owned banks have devised various instruments to reinforce their capital base.

Crédit Lyonnais boosted its capital adequacy by taking majority control of the finance activities of Thomson-CSF, the leading electronics and defense company. In exchange, Thomson-CSF receives 14 percent of the bank's equity via the issue of new shares for the purpose.

BNP and Union des Assurances Parisiennes, the big state-owned insurance company, exchanged 10 percent stakes, hiking BNP's capital by 10 percent.

The nationalized insurer Groupe des Assurances Nationales (GAN) has taken over from the state the capital problems of Crédit Industriel et Commercial.

In spite of such ingenuity, the Association Française des Banques is pressing for a change of the banking regulations to allow state-owned banks to issue preferred stock. It remains to be seen if the government will allow such a reform.

Other notes of discord have been sounded between the banks and the government in recent months.

Of course, relations have improved immeasurably since the grim days last year when Budget Minister Michel Charasse criticized bankers who "want to take our money and stop us from using it."

Several banks now are hiking the yearly fee charged for credit cards.

Yet, the government remains deaf to cries for reform of regulations that prevent banks from paying interest on current accounts. This stops them from introducing charges on such accounts.

Bankers also bewail the privileged access of mutual savings banks to the cheapest funds on the markets.

The rescue last year of the Arab-owned Al-Saudi Banque, accomplished through a bailout

organized by Banque de France, highlighted the importance of tightening prudential constraints being imposed by the Commission Bancaire.

The presence of the state in the banking sector looms large. But the role of Paris as an international financial center in a central location seems sure to grow all the same, industry experts say. Foreign bankers still complain of the clubby mentality.

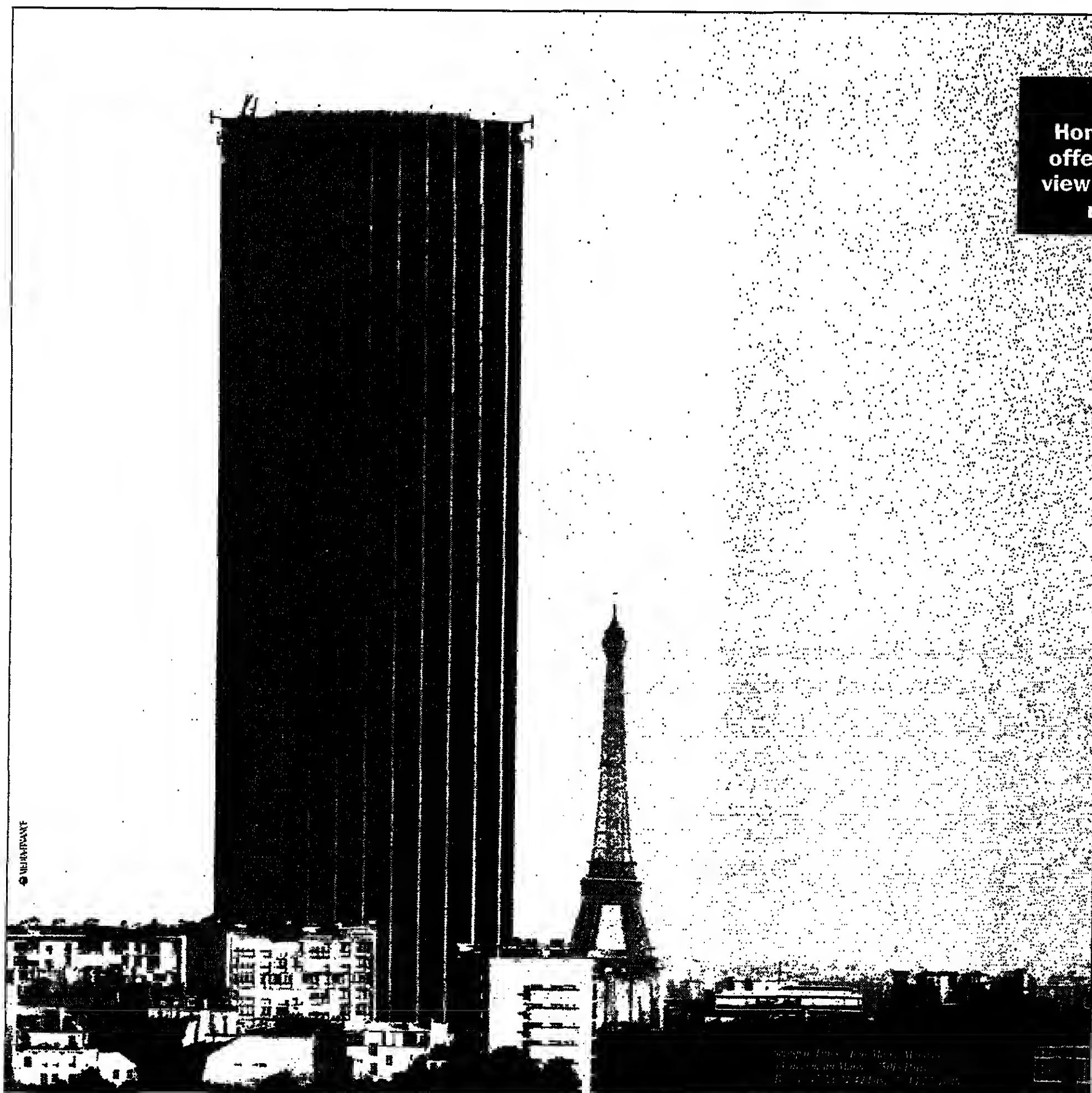
But some 168 foreign banks are operating in France and the number is increasing all the time. The Paris bourse's capitalization is now almost a third the size of that of the London stock exchange.

"The mentality already has changed substantially," says J. Paul Horne, Smith Barney's Paris-based international economist. "Where the mentality still has to change the most is in the Finance Ministry. And even there it is less dirigiste now."

Not least because of the language barrier, it would be unrealistic for Paris to be expected to overtake London as a banking center in the near future, Mr. Horne says. But dominance within continental Europe, supplanting Frankfurt, ultimately may be a realistic goal.

"I think Paris is well ahead of Frankfurt," contends Mr. Horne. "You do not have the same size of banks here. But you have a more modern and flexible banking market."

JOHN PHILLIPS is the Paris correspondent for United Press International.



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Liberalization Puts Foreign Banks on A Firmer Footing

By Howard Schissel

PARIS — France is one of the European countries most open to the penetration of foreign banks and financial institutions, but profitable operations are often hard for them to achieve in a highly competitive and overbanked market.

Paris's attractiveness for foreign banks is not just related to the perks of lunches at three-star restaurants or weekends in Normandy.

As Jacques Rambossan, the executive committee president at Barclays France, explained: "France will play a pivotal role in the emerging European banking scene, being a key bridge between the northern and southern parts of the continent."

The liberalization of the French banking and financial industry, a sustained rate of growth and a strong franc have also contributed to making Paris one of the most interesting locations in continental Europe for foreign banks.

Indeed, Paris is the world's third largest banking center in terms of the number of foreign banks present.

Compared to 56 in 1970, at the beginning of 1989 there were 165 banks with branches in the French capital and another 100 with representative offices.

Foreign banks have been busy in recent years buying up small banking networks, seeking out potential takeover candidates or expanding their own operations.

The French government prefers to have foreign banks acquire, for example, a regional banking network than see it close down, said Robert Allamon, chief executive of National Westminster SA.

Of course, the takeover of a large French bank like Crédit du Nord or Crédit Commercial de France (CCF) would raise sensitive problems, notably the desire of the French government to

achieve a degree of reciprocity for French banks, enabling them to achieve some of their own European ambitions.

Rare is the foreign bank rash enough to seek direct competition with French banks on the local retail scene. Foreign banks have tended to be highly selective in their approach to the French market, generally choosing a niche strategy.

"The answer is specialization, either clientele or special products and services," said a French banker working for a foreign institution.

Smaller and with greater flexibility than their French counterparts, foreign banks are often in a position to respond more quickly to clients' needs and to provide more personalized services.

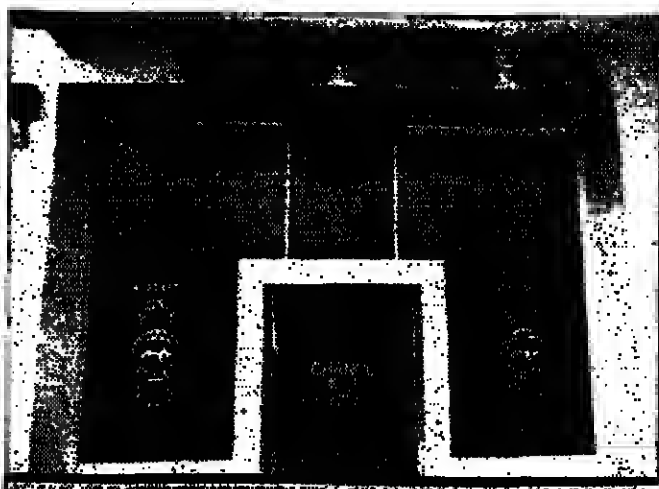
The global reach of many foreign banks and their sophisticated corporate finance operations are other advantages for attracting business from French companies with international ambitions.

BANKS from southern Europe, notably Italy and Spain, have been snatching up small French banks or reinforcing their networks in the French provinces to boost their activities. They are essentially concentrating on providing services for respective home markets through their presence in France.

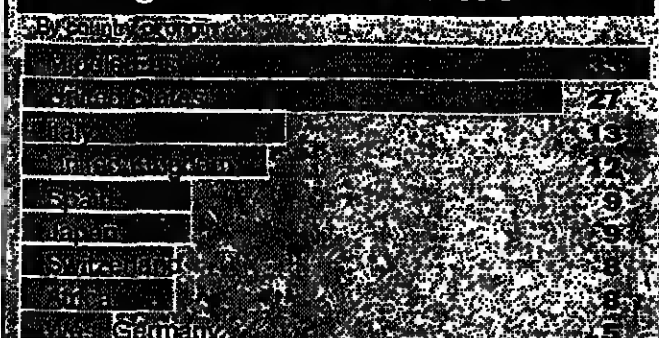
The Turin-based San Paolo, for example, purchased two small banks from Indosuez. Spain's Banco Bilbao Vizcaya is planning to swap bank branches with the state-controlled Banque Nationale de Paris to achieve a strategic beachhead in France.

West German banks have been hesitant. Dresdner Bank, for instance, plans to acquire majority control over a small French investment bank, but the giant Deutsche Bank, despite persistent rumors, has yet to make a decisive move in France.

By the same token, Swiss banks



Foreign Banks in France



Source: Comité des Etablissements de Crédit (CEC)

Frank S. Goss

have been discreet. Union Bank of Switzerland is said to be shopping around for opportunities in France.

British banks are not exactly new to the French banking scene, with Midland, National Westminster and Barclays all having relatively large retail networks as well as more specialized financial operations.

European savings banks from Belgium, Italy, Spain and West Germany have signed cooperation agreements with France's Caisse d'Epargne Ecureuil instead of going the expensive route of opening up retail outlets.

AERICAN banks have generally been retrenching or even pulling out of the French market. First National Bank of Chicago and Chemical Bank abandoned France, while Chase Manhattan, Citibank and Bank of Boston have largely trimmed their ambitions.

"The problem with most Ameri-

can banks," remarked a French banker, "is their stop-and-go approach and lack of long-term strategy, resulting in a wasting of opportunities and a loss of confidence in their commitment."

The dynamic newcomers to the French banking scene have been the Japanese. Almost all of Japan's leading banks are now present in Paris, with Fuji bank becoming the largest foreign bank in terms of assets.

Japanese institutions have been doing a limited but expanding business, while becoming familiar with the banking scene and getting to know the big movers. No Japanese bank has yet moved to take over a French bank, but analysts expect some movement on this front in the early 1990s.

In the long run, foreign banks will be running after a limited pool of business with broadly similar products and services.

HOWARD SCHISSEL is a freelance journalist based in France.

Paris Rallies Behind 'Franc Fort'

By Brian Martin

PARIS — It is well known that West Germany would like to see the Deutsche mark revalued within the European Monetary System in order to check — or, better, reverse — its growing trade surplus with other EC members. But for political reasons Bonn has not been able to get its way, and France has been the main objector to such a development. For many reasons Paris does not want its hard currency, or franc fort, policy disrupted.

It is easy to understand why Finance Minister Pierre Bérégovoy is refusing to contemplate the idea of a French franc devaluation. At present, Europe's economic future is being molded and the first stage of Jacques Delors's European Commission report on monetary union is due to come into force on July 1, 1990. A franc devaluation would send signals to the market that France is not, at least as yet, the strong man of Europe that Paris would like to believe it has become.

EMS stability since the last realignment in January 1987 has afforded Paris the opportunity, especially over the last year, to market the franc as a truly "hard currency." The approach of 1992, deregulation of the European financial industry and the surge in competition for banking and financial services immediately place the franc at the cornerstone of French political economy. Any signs of currency weakness would undoubtedly be a massive setback to France's ambitions as a leading financial center.

On a national level, Paris's hard currency policy is one of the greatest weapons that Mr. Bérégovoy possesses. In his budget speech in September he asserted that franc stability with-

in the EMS will remain the primary objective of monetary policy during 1990.

But franc stability has not only helped to achieve a convergence in inflation rates. Stability has also played a large part in constraining wage increases, which are expected to rise by an average of 3.5 percent this year. This has helped keep French industry competitive.

In fact, on real trade weighted terms, competitiveness has improved steadily since the last EMS realignment, although a modest deterioration was noted in August and September.

Undoubtedly, a franc devaluation within the EMS would raise inflation expectations and feed through into next year's pay negotiations, where already average settlements are widely forecast to breach the 4 percent level. The inflation differential with West Germany, the reduction of which is a paramount objective of France's monetary authorities, would also widen again as imported inflation picked up.

However, the main argument for a devaluation of the franc lies with France's trade position. Although small as a percentage of GDP, France's trade deficit has been steadily deteriorating over the last few years. This year the deficit is expected to widen by over 40 percent on 1988's 33 billion franc shortfall. Official forecasts look for a deficit of anywhere between 40 billion to 50 billion francs, while private estimates tend to put the deficit at the higher end of this range.

WITHIN the visible trade deficit, it is the deficit on manufactured goods that is providing the greatest source for concern. In 1986, the manufacturing component of the trade account averaged monthly surpluses in the region of 6 billion francs. This has swung to

monthly deficits of about 6 billion francs this year, and further deterioration looks inevitable.

The reason for the deterioration in the trade position lies with strong GDP growth — predicted to rise by 3.5 percent this year — which is being driven principally by strong investment growth.

As 1992 approaches, French industry, which traditionally has been atomistic, is gearing up for increased competition. The level of takeovers has risen dramatically, and industry is building up its capital base — the productive capacity of the economy rose by 5 percent last year. Recent surveys indicate that this trend will continue, so demand for capital goods from West Germany is unlikely to slacken over the next year.

Combined with the well-behaved nature of unit labor costs, narrowing in inflation differentials vis-à-vis West Germany and the trend toward improvement in competitiveness since 1987, the pointers seem to suggest a structural flaw in the French economy. Some analysts put this down to the sluggish markets for many of France's export products and slow growth in export markets outside of Europe.

So what does all this mean for the franc? If the reasons for the country's trade deficit do not lie with overvaluation of the currency, a minor adjustment to existing EMS parities will hardly solve France's problems. Indeed, Shearson Lehman Hutton estimates that for a devaluation to lead to a substantial improvement in France's trade deficit, it would need to be in the region of 10 to 15 percent. Politically, this is completely out of the question.

BRIAN MARTIN is editor of Euramoney's Treasury Manager.

Sturdy Growth Puts a Brake on Malaise

Continued from page 9

than governments often are about the economy's continuing weaknesses.

Mr. Bérégovoy's frankness is partly, of course, motivated by the need to keep convincing the government's trade union supporters that the brakes must be kept on wage increases for a little while longer. But it also represents a recognition, notably absent when Mr. Mitterrand first came to power in 1981, that there is no shortcut to putting the French economy back on a sound, long-term footing.

FEW people disagree with Mr. Bérégovoy when he identifies unemployment and the trade deficit as the two main "black spots." Unemployment, at 9.5 percent, is at last down from double digits. But it is still well above the levels in all other leading industrial countries except Italy. Although the government prides itself on its success in creating new jobs — more than 500,000 in the last two years — it admits that it is not bringing unemployment down fast enough.

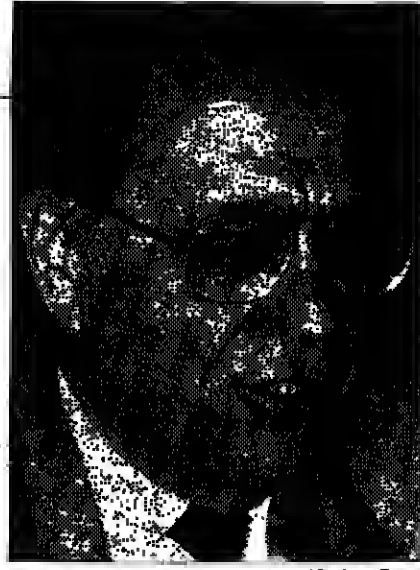
"The mismatch of qualifications on the labor market is such that high unemployment and a shortage of qualified labor are going hand in hand," says the OFCE.

On trade, the country is heading for a deficit of between 40 billion francs and 50 billion francs (\$8.1 billion) this year, up from just over 30 billion francs in each of the last two years. But the situation "is not at all perilous," says Mr. Bérégovoy. The heavy inflow of imports includes large amounts of capital goods, particularly from West Germany, that will modernize French industry, and trade in services is sharply improving.

Partly thanks to this year's record tourist receipts, the 1989 deficit on current account is likely to be held to around 25 billion francs, not much more than last year.

But the government concedes it must still do better. In a report this month, the Finance Ministry said the country's "permanent difficulty in achieving a durable foreign trade balance" is one of the basic facts of the French economy, which puts harsh constraints on the government's choice of economic policies.

To get rid of these constraints, France must continue its strategy of making its goods more competitive and keeping internal demand un-



Pierre Bérégovoy

der control, the ministry said. Even though French industry is up against its capacity limits, many economists say France is still not producing enough things that people want to buy.

Some fear that France may now be slipping back in its bid to overtake West Germany in terms of price competitiveness. After six years in which French unit labor costs rose more slowly than those in West Germany, the position was reversed in 1988.

"From 1982, France did very well to catch up with West Germany. Until 1987 France was regaining its market share in European trade in manufactured products," Mr. Home said. "But in 1988, 1989 and 1990, France seems to be losing ground again, on both prices and unit labor costs, in a very fundamental and unsettling way."

That is not quite how Mr. Bérégovoy sees it. One of the government's proudest claims is that it has succeeded in squeezing inflation out to the point at which the French inflation rate is now less than half a point above that of West Germany for the first time in many years.

Next year, he says, the intention is to bring France's inflation rate down to the same level as West Germany's, with an increase of about

2.5 percent in consumer prices. Nobody, of course, is quite sure what impact the upheaval in Eastern Europe will have on West Germany, or on the rest of Western Europe.

BUT what current economic trends mean, according to Mr. Bérégovoy, is that there can now be no question of a revaluation of the Deutsche mark against the French franc in the European exchange rate mechanism — a move that many West German economists would welcome.

"There was a time," Mr. Bérégovoy said earlier this month, "when revaluations of the mark were indispensable to preserve the stability of the system. Today, the progress of disinflation in Europe is such that stability is a collective obligation which places the same constraints on everyone."

Not only has France achieved its successes against inflation by virtue of a hard franc policy, Mr. Bérégovoy said, but a mark revaluation would export inflation to France by making French imports from West Germany more expensive. "Nothing will induce us to renounce" the hard franc policy, he insisted.

If Mr. Bérégovoy is to stick to that policy, the economy still has further tests to pass. As the Finance Ministry itself puts it, at least three "conditions for success" must be fulfilled: demand must not be allowed to run ahead of production capacity; companies must be able to invest, without punitive interest rates; and wages and salaries must be kept under control.

Mr. Bérégovoy is now proposing "a growth pact" to the French people, under which the fruits of the 3 percent growth expected this year and next would be divided three ways.

One-third would go to investment, one-third to job creation and one-third to increased purchasing power through higher earnings. "Without social cohesion, there will be no durable growth," the Finance Ministry says in its latest policy statement.

That will require a continuing balancing act from the government. Unions and workers traditionally expect more from Socialist than conservative governments. If Mr. Rocard and Mr. Bérégovoy buy "social cohesion" at too high a price, they will endanger the painstaking achievements of the past seven years.

REGINALD DALE is the economics correspondent for the International Herald Tribune.

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Caisse d'Epargne Ecureuil

Robert N. Dumas / ENF-EP

Stability Aids Outlook for Bonds

Continued from page 9

October when the Bundesbank raised its key rates by a full percentage point and Bank of France immediately followed with a full point rise of its own.

"People with a long-term view of the market are taking seriously French government promises to defend the 3.40 DM level," said Karin M. Basta, an analyst at Merrill Lynch & Co.

The French Treasury has also backed its macroeconomic marketing pitch with an overhaul of the French bond market structure to make it more recognizable to international investors.

Rather than syndicating its debt issues through the big French banks as it did previously, the Treasury now holds regular auctions through a system of primary dealers on the first Thursday of each month.

Primary dealers are authorized by the French government and can bid for bonds directly at government auctions.

The Treasury estimates that the system, which closely resembles that in the U.S. Treasury bond market, has shaved 50 basis points off of its borrowing costs through greater efficiency and more international participation.

Of the roughly 370 billion francs (\$60 billion) of French government bonds outstanding, foreign investors are currently estimated to hold about 5 percent.

The government has also moved to stimulate market liquidity through liberalization measures and tax changes. In its 1990 budget, for example, the government proposed lowering the withholding tax levied on bonds from 27 percent to about 15 percent.

Changes have also been made in laws governing mutual funds, allowing investors to accrue interest on their bond holdings on essentially a tax-free basis.

The regulatory moves, together with the system of primary dealers and the booming trade in bond futures on the Mafif futures market, has caused trading volume in domestic French bonds to soar.

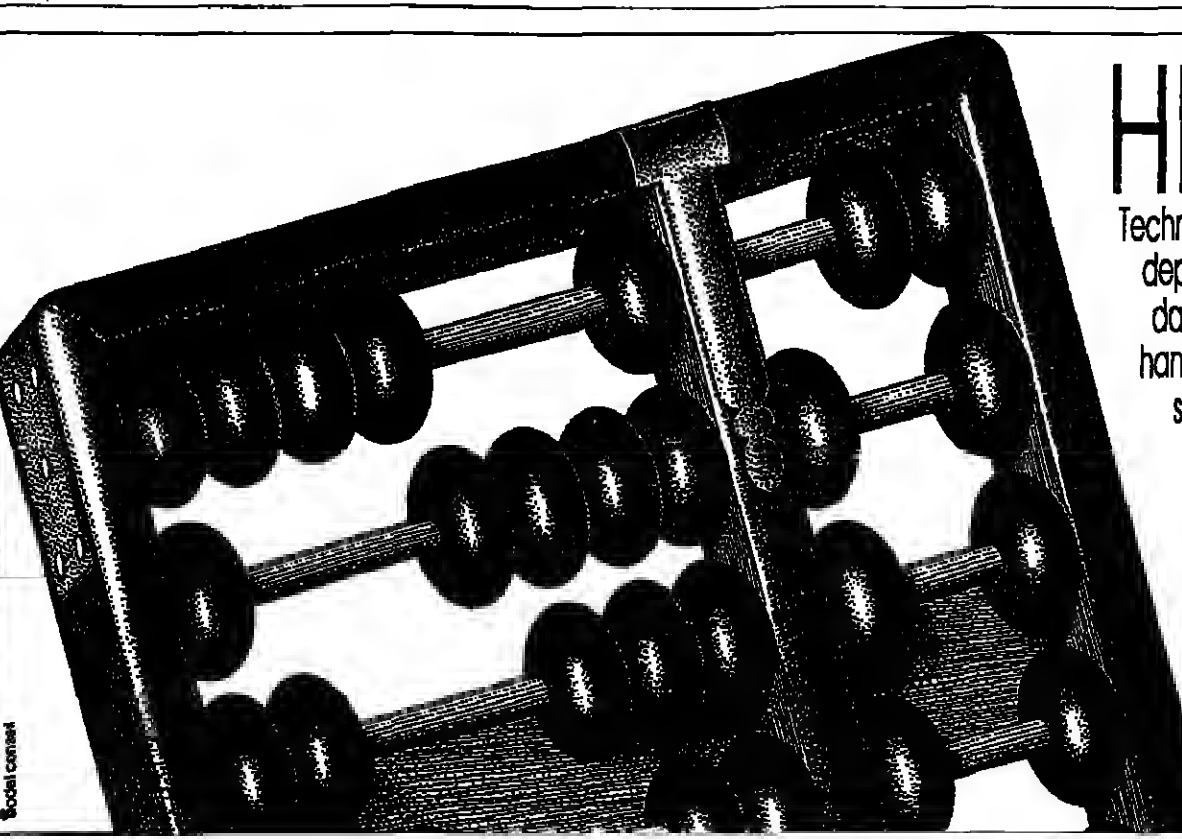
In 1988, trading volume passed the 3.5 trillion franc (\$588 billion) mark. That compares with less than 2.5 trillion in 1987 and less than 1 trillion in 1985.

"Our traders have found the French market increasingly easy to trade in," said Mr. Basta of Merrill Lynch.

The continued increase in trading on the domestic market has also been accompanied by a revival of interest in the Eurofranc market. In July alone, it amounted to 6 billion of fixed-rate French-franc issues. That compares with 11 billion for all of 1987.

The increasing Euromarket volume has come as France has loosened exchange controls and made it easier for French corporations to borrow in the Euromarkets in francs. Volume of Eurofranc bonds is expected to grow further when exchange controls in most EC countries are removed completely in 1990.

JOHN J. DUFFY is on the staff of the International Herald Tribune.



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New International Bond Issues

Compiled by Laurence Desvillettes

Issuer	Amount (millions)	Mat.	Coups	Price	Price and week	Terms
FLUATING RATE NOTES						
Belgium	\$400	1999	8 1/2	100.10	100.00	Interest will be the 6-month Libor rate. Collateral of par in 1994. Fees 0.10%. Denominations \$100,000. (Credit Suisse First Boston)
Top Finance (Bermuda) II	\$25	2000	0.20	100	—	Over 6-month Libor. Collateral of par in 1990. Fees 0.30%. Denominations \$1 million. (Fidder Peabody Int'l)
Norco	FF 700	1996	1 1/4	100	99.98	Over 3-month Libor. Collateral of par in 1990. Fees 0.15%. (Société Générale)
FIXED-COUPONS						
Nippon Telegraph & Telephone	\$200	1996	8 1/2	101 1/2	100.05	Noncallable. Fees 1.00%. Denominations \$10,000. (Paribas Capital Markets)
SBS Sparinvest	\$350	1990	6	101 1/2	—	Noncallable. Redemption amount of maturity will be linked to the price of gold. Fees 1.00%. Denominations \$1 million. (Nomura Int'l)
Top Finance (Bermuda) II	\$100	2000	9.26	100	—	Semiannually. Collateral of par in 1994. Fees 0.30%. Denominations \$100,000. (Fidder Peabody Int'l)
Union Bank of Finland	\$350	1991	6	101 1/2	—	Noncallable. Redemption amount of maturity will be linked to the price of gold. Denominations \$1 million. Fees 1.00%. (Nomura Int'l)
World Bank	DM 150	1994	9	100 1/2	99.10	Interest and principal may be paid in marks or dollars, at a fixed exchange rate of 1.70 marks per dollar. Noncallable. Fees 1.00%. (Commerzbank)
Crédit Foncier de France	ECU 150	1999	9 1/2	101 1/2	100.80	Noncallable. Fees 1.00%. (Crédit Commercial de France)
Interfinance Crédit National	ECU 50	1991	10 1/2	101 1/2	99.75	Noncallable. Fees 1.00%. (BNP Capital Markets)
Kreditbank Int'l (France)	ECU 75	1990	11	101 1/2	100.80	Noncallable. Fees 1.00%. Increased from 50 million esc. (Kreditbank Int'l Group)
Sweden	ECU 100	1994	9 1/2	102	100.12	Noncallable. Fees 1.00%. (JBS-Philips & Drew Securities)
Swedish Export Credit	ECU 100	1994	9 1/2	101 1/2	—	Noncallable. Fees 1.00%. (Barclays Trust Int'l)
Eurofina	ECU 7,000	1992	15 1/2	100	99.90	Noncallable. Fees 1.00%. (J.P. Morgan Securities)
State Bank of South Australia	Aus \$6	1993	16	102	100.62	Noncallable. Fees 1.00%. (Morgan Bank)
Banque Nationale de Paris	CS 75	1992	11 1/2	100 1/2	99.50	Noncallable. Fees 1.00%. (Société Générale)
Tokyo Electric Power	CS 150	1996	10 1/2	101 1/2	99.125	Noncallable. Fees 1.00%. (Wood Gundy)
Crédit Local de France	Y 30,000	1994	6 1/2	101 1/2	100.90	Noncallable. Fees 1.00%. Denominations 10 million yen. (Dobus Europe)
Finance for Danish Industry Int'l	Y 5,000	1994	6.30	100.10	—	Semiannually. Noncallable. Fees 0.10%. (J.P. Morgan Securities)
Leeds Permanent Building Society	Y 15,000	1993	6 1/2	101 1/2	—	Noncallable. Fees 1.00%. (Dobus Europe)
SAB, Swedish Housing Finance	Y 15,000	1994	6 1/2	101 1/2	—	Noncallable. Fees 1.00%. (Nomura Int'l)
Swedbank	Y 10,000	1992	6.35	101	—	Noncallable. Fees 1.00%. (Forsyth Int'l Europe)
EQUITY-LINKED						
Nippon Electric Glass	\$150	1994	3 1/2	100	106.00	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at \$3.93 per share and at \$45.35 per share. Fees 2.00%. (Dobus Europe)
Nippon Express Co.	\$500	1994	open	100	106.00	Coupon indicated at 4.00%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2.00% premium. Fees 2.00%. Terms to be set Nov. 30. (Nomura Int'l)
Nippon Metal Industry	\$100	1993	open	100	106.75	Coupon indicated at 3.00%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2.00% premium. Fees 2.00%. Terms to be set Nov. 28. (Nomura Int'l)
Penta Ocean Construction	\$100	1993	3 1/2	100	—	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at \$1.54 per share and at \$44.75 per share. Fees 2.00%. (Forsyth Int'l Europe)
Q.P. Corp.	\$150	1994	open	100	106.25	Coupon indicated at 4.00%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2.00% premium. Fees 2.00%. Terms to be set Nov. 25. (Dobus Europe)
Sekisui Plastics	\$100	1993	3 1/2	100	105.00	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at \$1.20 per share and at \$44.75 per share. Fees 2.00%. (Forsyth Int'l Europe)
Toyo Menka Kaisha	\$750	1993	open	100	106.00	Coupon indicated at 3.00%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2.00% premium. Fees 2.00%. Terms to be set Nov. 27. (Nomura Securities Europe)
Yuen Fong Yu Paper Manufacturing	\$100	1999	2	100	114.00	Redeemable at 122.5% in 1994. Convertible at 226.5% into dollars per share and at 26.05 dollars per U.S. dollar. Fees 2.00%. Denominations \$10,000. (Barclays Trust Int'l)
Aichi Tokai Denki	DM 45	1994	1 1/2	100	—	Noncallable. Each 5,000-mark note with five warrants exercisable into company's shares at \$1.20 per share and at \$0.20 per mark. Fees 2.00%. (Dobus Europe)
Kyokuto Bank Kaisha	DM 50	1993	open	100	99.75	Coupon indicated at 1.00%. Noncallable. Each 5,000-mark note with five warrants exercisable into company's shares at an expected 2.00% premium. Fees 2.00%. Terms to be set Nov. 28. (Dobus Europe)
Uon Corp.	DM 150	1994	open	100	98.75	Coupon indicated at 1.00%. Noncallable. Each 5,000-mark note with one warrant exercisable into company's shares at an expected 2.00% premium. Fees 2.00%. Terms to be set Nov. 29. (Nikko Securities Co.)
Q.P. Corp.	DM 100	1993	open	100	100.25	Coupon indicated at 1.00%. Noncallable. Each 5,000-mark note with one warrant exercisable into company's shares at an expected 2.00% premium. Fees 2.00%. Terms to be set Nov. 29. (Nikko Securities Co.)
Sanyo Special Steel	DM 150	1993	1 1/2	100	98.80	Noncallable. Each 5,000-mark note with five warrants exercisable into company's shares at \$1.20 per share and at 79.30 yen per mark. Fees 2.00%. (Dobus Europe)
Tokushimaya	DM 300	1993	open	100	100.25	Coupon indicated at 1.00%. Noncallable. Each 5,000-mark note with five warrants exercisable into company's shares at an expected 2.00% premium. Fees 2.00%. Terms to be set Nov. 29. (Nomura Securities Europe)
Toshiba Tunggal	DM 120	1993	1 1/2	100	99.50	Noncallable. Each 5,000-mark note with five warrants exercisable into company's shares at \$1.20 per share and at 79.09 yen per mark. Fees 2.00%. (Nomura Securities Europe)

Prospecting for Gains on Gold

By Robert W. Casey
New York Times Service

NEW YORK — Gold is leaving the skeptics in the dust. They expected its price to continue drifting lower because of the mild inflation outlook and growing bullion production.

"Everybody assumed it would just keep going down and down and down. But it didn't," said Frederic S. Bogart, head of precious metals for Republic National Bank of New York.

Instead, gold bullion has rallied strongly since bottoming out at \$350 an ounce in September, sending volatile U.S. mining stocks soaring.

The group is up about 35 percent since this summer and should advance further, according to Valid Fathi, an analyst with Prescott, Ball & Turben Inc.

"If gold is in a bull market, as we believe it is for the first time in several years, the reward in these stocks could be substantially higher," he said.

Market participants say a key test of the rally's strength began last week as gold peaked at \$400 an ounce, a level it previously saw in January of the year down from a high of just over \$500 in 1987.

On the Commodity Exchange in New York, December gold futures contracts rose \$7.70 on Friday to close at \$419.30.

"There are a lot of people who invest in this area who are still on the sidelines," said Marc J. Loew, manager of Shearson Lehman Hutton Inc.'s SLH Precious Metals Portfolio.

"Breaking the psychological barrier of \$400 gold is what's going to bring them in," Mr. Loew said.

What is the best way to participate in the rally? For investors who can tolerate risk, mining stocks carry the biggest potential gains.

Their earnings and share prices are highly sensitive to gold prices. "For example," says Mr. Fathi, "if

bullion goes up 10 percent, you shouldn't be surprised to see a 20 percent move in the price of gold mining shares."

Mr. Fathi recommends shares in large, efficient mining companies with high production growth.

One of his favorites, American Barrick Resources Corp., has expanded production by about 40 percent this year.

The company's bottom line has

'A lot of people who invest in this area are still on the sidelines.'

Marc J. Loew, a Shearson Lehman Hutton portfolio manager.

also benefited from forward sales of gold that locked in an average price of more than \$400 an ounce for its 1989 production.

But Mr. Fathi still questions whether the gains in gold shares have been sufficient to compensate for the volatility and risks.

To reduce risks, mutual funds provide diversification. Laurie Kaplan, an analyst for Morningstar Inc., a mutual-fund rating service, said the three dozen gold-oriented funds offer a wide range of risk levels.

Most volatile, she said, are the "pure play" funds that stay fully invested in gold shares whatever the outlook for bullion prices.

The higher their concentration in small mining company stocks, the greater their volatility, she said.

"They'll give you the biggest ride on the upside but they also give you a ride on the downside," she said.

Mr. Kaplan recommends only one pure play, Franklin Gold Fund, citing the track record of the portfolio manager, Martin Wiske-

Hong Kong's Surplus In Trade Rises Sharply

Agence France-Press

HONG KONG — Hong Kong posted a trade surplus of more than four billion Hong Kong dollars (\$513 million) in October, according to government figures, more than three times the surplus in October 1988.

The value of the territory's exports rose nearly 4 percent, to 20.8 billion dollars in October, while imports, mainly of goods from China, surged more than 20 percent, to 31.9 billion dollars.

Imports grew by 6.5 percent, to 48.7 billion dollars, according to the report, released Saturday.

The moderate growth in exports since May, compared with a slowing-down in growth of imports, showed that domestic demand was slackening, a government official said.

Meanwhile, industry sources say that Hong Kong exporters are looking forward to getting a larger share of the East European market

Hawke Vows To Maintain Tight Money

Reuters

SYDNEY — Bob Hawke, the Australian prime minister, vowed Sunday that his Labor government would maintain its tight monetary policies despite evidence that high interest rates have cut sharply into his party's political support in South Australia.

Labor, in power in South Australia for 20 of the past 27 years, suffered a 5 percent swing against it in Saturday's state election.

National policies dominated the campaign, with the main issue being Mr. Hawke's 18-month monetary squeeze, which has pushed mortgage rates to a record 17 percent.

Mr. Hawke, facing a national election before the middle of next year, agreed that some homeowners had voted in anger. But he said he would not cut interest rates to curry favor with the electorate.

OECD: More Growth

(Continued from first finance page)

importers have opted to cut profits and save market share rather than raise U.S. prices to fully match the decline in the dollar's value.

But another factor, largely ignored, is that dollar depreciation spurs demand for additional imports. As the dollar falls and interest rates ease, exports increase, employment expands, manufacturing prices climb, stock prices rise and consumers — feeling wealthier — save less and spend more.

"The persistence of the U.S. deficit was thus the rather unsurprising result of the feedback effects of depreciation on employment and income growth, rather than an expression of a lack of U.S. competitive response," the report says.

It gives a favorable assessment of the U.S. trade performance, noting that through depreciation U.S. industry has already won back business in foreign markets lost by the strong dollar in the mid-1980s.

But for the currency's depreciation to make a meaningful dent in the trade deficit, domestic demand has to be reduced.

Fiscal restraint, the report cautions, may not be enough. It needs to be combined with a reform of the tax system "to increase the incentives for private saving."

Together, these policy changes would do more than just reduce the international deficit — they would help reduce the relatively high costs of capital in the United States, a major factor in explaining why business investment has been and remains low relative to spending in other industrialized countries.

Deficient domestic saving, the report says, is probably linked to the high real interest rates pushing up the cost of capital.

"The influence of higher credit costs is most evident in the asset composition of investment. There has been a shift away from long-term assets, such as factories to shorter-term equipment such as computers. As a result, there has been a decline in net investment relative to gross national product," the report said.

The report warned the United States to go easy in its bilateral trade negotiations, saying they marked "a dangerous trend towards regional trading blocs" and a potentially damaging drift to unilateral retaliation against perceived trade barriers.

BRITAIN: Leaner Industries Build Competitiveness

(Continued from first finance page)

were fighting each other all the time," Mr. Rothwell said.

A turning point, by all accounts, came in 1985 after Robert A. Lutz, then the head of Ford of Europe, was quoted in the press as saying that plants like Halewood were "an endangered species."

The assessment got the attention of Ford's unions, which called for meetings with management.

With unemployment in the region running at nearly 20 percent, the unions realized not only that their jobs were at stake, but also that a pullout by Ford would batter the Liverpool economy.

Mr. Rothwell decided to seize on that concern to explain to workers and plant supervisors the competitive fight that Halewood faced and how far it relied on productivity.

He first met with groups of 40 to 200 people, eventually speaking to all 8,000 plant employees.

Even earlier, Ford had begun getting its message across to workers about the need for international competitiveness by flying them to Saarlouis. In all, 2,000 Halewood

workers and managers visited the German factory.

Just as important as the discussion groups and the trips, managers and union representatives agreed, was the time spent after drinking beer and eating. Social prejudices and suspicions began to fade after these face-to-face contacts.

The new atmosphere, built slowly but steadily, has brought a new means of solving problems and overcoming conflicts.

The Ford unions still bargain vigorously for higher wages in national negotiations. They recently rejected an offer of a 9.5 percent pay increase for next year at Ford plants throughout the country and threatened a strike to get a higher settlement.

But wildcat strikes and daily shutdowns are no longer a fact of life at Halewood.

Improved communication helps to hold the new relationship together. For example, Ford is introducing machinery in its body-panel stamping operations that will elim-

Treasury Prices Gain On Hopes of Fed Easing

By H.J. Maidenberger
New York Times Service

NEW YORK — U.S. Treasury bond prices rose last week amid optimism that the Federal Reserve Board has decided to ease its credit policies further.

The Treasury's bellwether issue, the 8 1/4 percent bond maturing in 2019, closed Friday at 102 28/32 to

yield 7.87 percent, up in price from 102 6/32 to yield 7.93 percent a week earlier.

Analysts said the market shrugged off a Fed move on Friday to drain some of the reserves that it had added to the banking system before the Thanksgiving holiday.

The infusion of reserves on Wednesday was taken as a strong signal that the central bank was easing rates.

"The Fed's substantial infusion of reserves on Wednesday was a much bolder policy statement," said Maria Fiorini Ramirez, a managing director at Drexel Burnham Lambert Inc. She said the Fed move Wednesday was "an obvious attempt to stimulate the economy."

William V. Sullivan Jr., a senior vice president at Dean Witter Reynolds, described Friday's Fed action as a technical move but said it still "dampened hopes for future easing that would pave the way for cuts in the discount and prime rates."

He said the Fed move was tied to bad weather that had slowed flights at number of major U.S. airports last week.

"As usual, bad weather tends to delay and build up the float of funds coming into the banking system," he said. "What the Fed did in effect was a technical move to sop up some of the float."

Another possible reason, Mr. Sullivan continued, "was that the Fed was not prepared at this time to push rates down further, but the Street still believes we haven't seen the end of easing this year."

When the Fed intervened with temporary sales of Treasury issues at its usual time, about 30 minutes before noon, most traders were clearing their desks and getting ready to leave, Mr. Sullivan said, "so the action probably had a greater impact than it would normally have had."

The federal funds rate, the rate most immediately influenced by Fed policy changes, closed Friday at 8.25 percent, down from about 8.44 percent the previous week.

Although some dealers worried that further interest rate declines might cause foreign investors to shun the market, most analysts rejected the concern.

"Interest rate differentials are not as important as they were in the past," said Mrs. Ramirez. "The world is flooded with investment funds seeking a safe haven. Besides, foreign investors are far more long-term oriented than domestic investors," she added.

As for domestic investors, she said "their biggest problem in the fixed-income market today is trying to capture the highest yields before they decline further."

Mrs. Ramirez said Friday's

prices and yields were not a test of the market. "Still, the rush to lock in current yields is restoring the normal yields curve," she added, referring to the differential between short- and long-term rates.

Among short-term Treasury securities last week, Treasury bill rates also fell in response to Fed easing hopes. Rates for three-month Treasury bills closed at 7.51 percent Friday, down from 7.67 percent the previous week, while six-month bills ended at 7.31 percent, down from 7.44 percent.

The Treasury's financing plans this week call for the sale of \$10 billion of two-year notes on Tuesday and \$8 billion of five-year notes on Wednesday.

Dealers said they expect the two-year note auction to produce an average yield of 7.64 percent, and the five-year note auction to produce an average yield of 7.71 percent.

Euromarts At a Glance

Eurobond Yields			
U.S. \$ 5 yrs & over	Nov. 22	Nov. 18	
U.S. \$ 5 yrs & over	8.75	8.75	
U.S. \$ 5 yrs & over	8.45	8.45	
U.S. \$ 5 yrs & over	8.25	8.25	
French franc, less than 5 yrs	12.67	12.67	
French franc, less than 5 yrs	9.54	9.54	
French franc, less than 5 yrs	12.25	12.25	
French franc, less than 5 yrs	10.85	10.85	
ECU 5 yrs & over	8.29	8.29	
ECU 5 yrs & over	9.34	9.34	
ECU 5 yrs & over	11.25	11.25	
ECU 5 yrs & over	14.65	14.65	
ECU 5 yrs & over	12.43	12.43	
Yen 5 yrs & over	5.88	5.88	
Yen, less than 5 yrs	6.02	6.02	

Source: Luxembourg Stock Exchange.

Weekly Sales

Primary Market			
	Nov. 24	Nov. 23	Nov. 22
Straiten	277.60	277.60	277.60
Convert.	147.28	147.28	147.28
FRNs	15.00	14.70	14.70
SCP	2,002.28	2,002.28	2,002.28
Total	2,592.80	2,592.80	2,592.80

Source: Euromarket, Cade.

Libor Rates

U.S.			
	1-month	3-month	6-month
U.S.	8 1/4	8 1/4	8 1/4
U.S.	8 1/4	8 1/4	8 1/4
U.S.	8 1/4	8 1/4	8 1/4
U.S.	8 1/4	8 1/4	8 1/4
U.S.	8 1/4	8 1/4	8 1/4
U.S.	8 1/4	8 1/4	8 1/4
U.S.	8 1/4	8 1/4	8 1/4
U.S.	8 1/4	8 1/4	8 1/4
U.S.	8 1/4	8 1/4	8 1/4

Source: Morgan Guaranty, Lloyds Bank, Reuters.

U.S. Treasuries

Nov. 24			
	Close	Ask	Yield
31,10.91	99.31/32	100.12/32	7.64
31,10.91	100.12/32	100.12/32	7.64
30,09.93	101.12/32	101.12/32	7.57
30,09.93	102.12/32	102.12/32	7.57
15,10.94	101.12/32	101.12/32	7.57
15,10.94	101.12/32	101.12/32	7.57
15,10.94	101.12/32	101.12/32	7.57
15,10.94	101.12/32	101.12/32	7.57
15,10.94	101.12/32	101.12/32	7.57
15,10.94	101.12/32	101.12/32	7.57

Source: Solomon Inc.

U.S. Consumer Rates

Nov. 24	
	Rate
Text Economy Bonds	7.25 %
Money Market Funds	8.31 %
Consumer's Price Average	8.31 %
Bank Money Market Accounts	8.31 %
Bank Rate Money Index	8.31 %
Home Mortgage, FHLS average	N.A. %

Source: New York Times.

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OTC Consolidated trading for week ended Friday. Nov. 24

OTC Consolidated trading for week ended Friday, Nov. 24

Selling 100s High Low Close Chgs										Selling 100s High Low Close Chgs									
AAW	24	24	24	24	24	24	24	24	24	AAW	24	24	24	24	24	24	24	24	24
AB	24	24	24	24	24	24	24	24	24	AB	24	24	24	24	24	24	24	24	24
AC	24	24	24	24	24	24	24	24	24	AC	24	24	24	24	24	24	24	24	24
AD	24	24	24	24	24	24	24	24	24	AD	24	24	24	24	24	24	24	24	24
AE	24	24	24	24	24	24	24	24	24	AE	24	24	24	24	24	24	24	24	24
AF	24	24	24	24	24	24	24	24	24	AF	24	24	24	24	24	24	24	24	24
AG	24	24	24	24	24	24	24	24	24	AG	24	24	24	24	24	24	24	24	24
AH	24	24	24	24	24	24	24	24	24	AH	24	24	24	24	24	24	24	24	24
AI	24	24	24	24	24	24	24	24	24	AI	24	24	24	24	24	24	24	24	24
AL	24	24	24	24	24	24	24	24	24	AL	24	24	24	24	24	24	24	24	24
AM	24	24	24	24	24	24	24	24	24	AM	24	24	24	24	24	24	24	24	24
AN	24	24	24	24	24	24	24	24	24	AN	24	24	24	24	24	24	24	24	24
AO	24	24	24	24	24	24	24	24	24	AO	24	24	24	24	24	24	24	24	24
AP	24	24	24	24	24	24	24	24	24	AP	24	24	24	24	24	24	24	24	24
AR	24	24	24	24	24	24	24	24	24	AR	24	24	24	24	24	24	24	24	24
AS	24	24	24	24	24	24	24	24	24	AS	24	24	24	24	24	24	24	24	24
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AV	24	24	24	24	24	24	24	24	24	AV	24	24	24	24	24	24	24	24	24
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AX	24	24	24	24	24	24	24	24	24	AX	24	24	24	24	24	24	24	24	24
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BA	24	24	24	24	24	24	24	24	24	BA	24	24	24	24	24	24	24	24	24
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BI	24	24	24	24	24	24	24	24	24	BI	24	24	24	24	24	24	24	24	24
BJ	24	24	24	24	24	24	24	24	24	BJ	24	24	24	24	24	24	24	24	24
BK	24	24	24	24	24	24	24	24	24	BK	24	24	24	24	24	24	24	24	24
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MONDAY SPORTS

No. 4 Michigan Joins the Upsets, Kansas Beats Its 3d Ranked Team

Compiled by Our Staff From Dispatches
Fourth-ranked Michigan has become the third upset victim among the top five U.S. college basketball teams, while unranked Kansas is looking like a power-

COLLEGE BASKETBALL

house after four straight victories, three over nationally ranked teams.

Sean Rooks, a 6-foot, 11-inch (two-meter) sophomore, scored 20 points, six on consecutive free throws down the stretch, as No. 6 Arizona fought back Saturday for an 82-75 victory over Michigan in the Tip-Off Classic in Springfield, Massachusetts.

The Wildcats outscored the Wolverines 16-7 in the final 90 seconds to defeat

Michigan in its first game since winning the National Collegiate Athletic Association title in April.

Arizona had its largest lead, 54-45, early in the second half, but Michigan moved in front, 66-63, on a three-point shot by Rameal Robinson and a free throw by Terry Mills with eight minutes left.

Matt Muehlbach then tied the score with a three-pointer for the Wildcats. Michigan regained the lead briefly, 68-66, but Brian Williams, a sophomore transfer from Maryland, triggered Arizona's charge.

Williams, who had 12 points in limited action while recovering from a foot injury, tied the score at 68 with two free throws. Jud Buechler followed with a layup and Matt Othick had two more free throws for a 72-68 lead.

Rooks added his six free throws and Muehlbach also made two.

Kansas 66, No. 25 St. John's 57: Forward Mark Randall had 25 points and 10 rebounds as Kansas won the preseason National Invitation Tournament on Friday night in New York.

Coming off a year in which they were ineligible for the NCAA tournament, the Jayhawks earlier beat No. 2 Louisiana State and No. 1 University of Nevada-Las Vegas.

Kansas took control with 11-0, 9-0 and 10-0 runs in the first half and an 8-0 run late in the game. The Redmen led, 56-55, with 6:07 left, then went 5-26 without scoring while Kansas went ahead by 63-56.

UNLV routed DePaul, 88-53, for third place as Larry Johnson scored 21 of his 32 points in the second half.

No. 5 Georgetown 79, Hawaii Pacific 57: Mark Tillmon scored 24 points to lead Georgetown as the Hoyas controlled the boards and held Hawaii Pacific to outside shooting Saturday in Pearl Harbor, Hawaii.

Hawaii Pacific kept within 10 points until Georgetown went ahead, 27-15, with 6:01 left in the half. But the Sea Warriors were unable to get closer than nine points the rest of the half as the Hoyas defense kept them from penetrating to the basket.

The Hoyas opened a 20-point lead with

11:41 remaining in the game, and widened the lead to 31 points in the next six and a half minutes.

Dwayne Bryant and Alonzo Mourning each had 12 for Georgetown.

The fifth-ranked Hoyas had routed another small school, Hawaii Loa, by 109-56 on Friday night.

No. 7 North Carolina 78, Villanova 68: Rick Fox scored 23 points, five in a late surge that helped the Tar Heels put the game away in the semifinals of the Maui Classic in Lahaina, Hawaii.

Villanova led, 65-62, with seven minutes left before North Carolina's rally. Villanova tried to catch up by shooting three-pointers but could not connect.

On Friday, North Carolina edged past James Madison, 80-79, as King Rice got a driving scoop shot at the buzzer to cap the Tar Heels' 10-0 run over the final minute.

No. 11 Missouri 82, No. 12 Louisville 79: Missouri scored just three points in the final 8:03, withstanding a rally by Louisville in the semifinals of the Maui Classic.

The Tigers led, 79-57, with 8:03 to play. But Louisville, paced by Felton Spencer and Jerome Harmon, staged a comeback, coming within 80-79 with 51 seconds left.

Missouri then ran down the 45-second shot clock and Anthony Peeler scored the game's final points with 23 seconds left when Spencer was called for goaltending.

No. 10 Duke 130, Harvard 54: In Durham, North Carolina, senior forward Robert Bricker and freshman guard Bill McCaffrey each scored 22 points for Duke in a game that was almost no contest from the start.

Duke broke a 2-2 tie by outscoring the Crimson, 24-4, over a six-minute span, led by 72-30 at halftime and narrowly missed breaking the school record of 136 points.

No. 14 Indiana 77, Miami of Ohio 66: Calbert Cheaney scored 20 points and Eric Anderson added 19 in Indiana's season-opening victory in Bloomington, Indiana.

Cincinnati 66, No. 20 Minnesota 64: Steve Sanders' three-point shot at the buzzer, his only long shot of the game, gave Cincinnati an upset victory over the Gophers in Cincinnati.

(AP, UPI)

Italy's All-Stars: Points, Punches

The Associated Press

ROME — It was a great show, an National Basketball Association reunion with a record crowd, a record number of points and a fight.

In a game that featured 18 former NBA players, the South beat the North, 178-166, Saturday night in the Italian basketball league's all-star game before 14,771 fans at the Palaeur Arena.

Former NBA guards Brian Shaw and Darwin Cook scored 63 points for the winners, overshadowing a record 50-point performance by the North's Michael Ray Richardson.

Wes Matthews, who dazzled the crowd with his acrobatic drives and scored 35 points for the North, was voted the game's most valuable player.

But Matthews, who played with the Washington Bullets, the Atlanta Hawks and the Los Angeles Lakers in the NBA, was involved in a four-quarter scuffle with Brazil's Oscar Schmidt that many players said took away from the fun.

About halfway through the final period, the two tangled and the 6-foot, 8-inch (2.03-meter) Schmidt had to be restrained by three other players as he tried to go after the slight Matthews, barely over 6 feet.

The coaches took the two players out for the rest of the game. Afterward, teammates stood between the two in the corridor leading to the lockers.

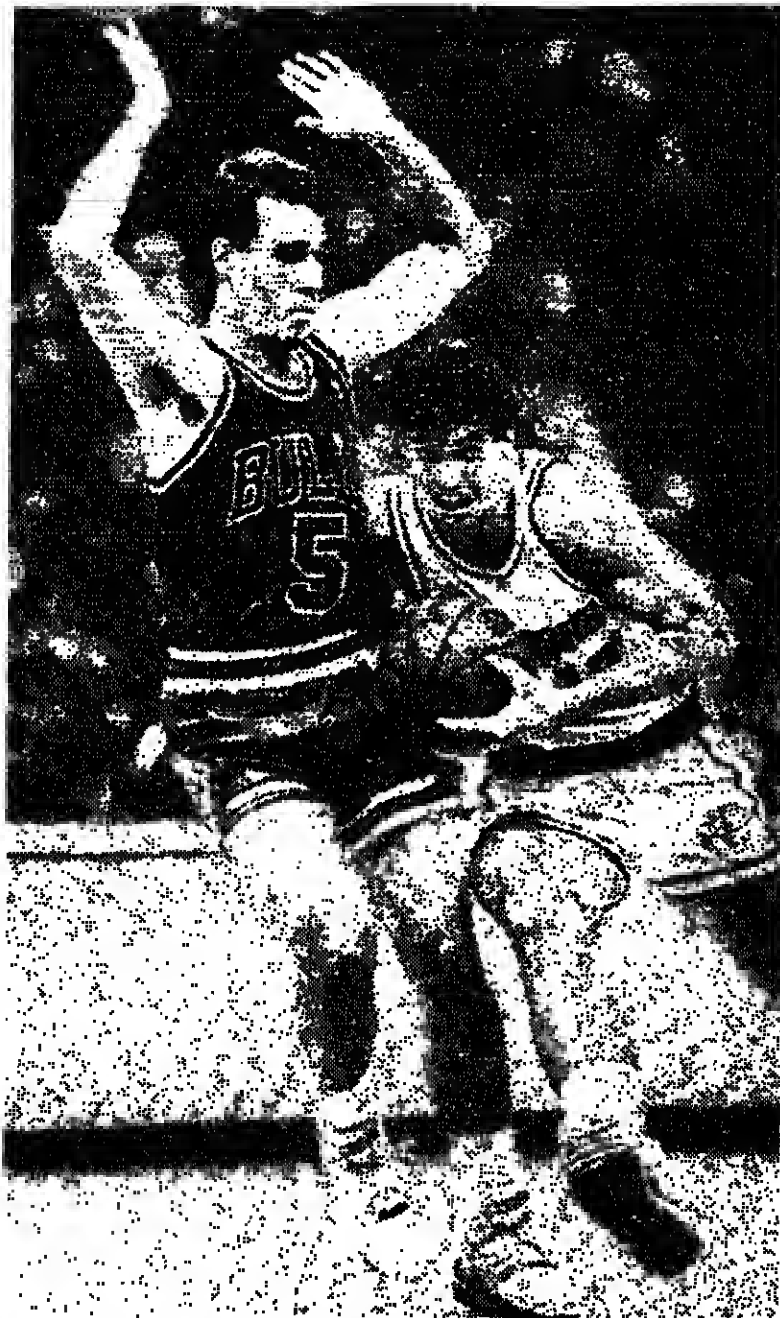
Neither player would comment. "Oscar banged Matthews and Matthews threw a punch," said Danny Ferry, who got 22 points for the South and made all four of his three-point shots.

"Everybody put on a great show tonight, but unfortunately there had to be a fight," said Shaw, Ferry's teammate on Messaggero Roma. "Oscar was waiting for him after the game. Everybody stood there and kept them apart."

Richardson, who started for the New York Knicks and New Jersey Nets before being banned from the NBA in 1986 for drug use, said, "I know guys want to win, but fighting is not called for. It was stupid and immature. I think the fight threw everything off."

The total of 344 points set an Italian all-star game record. "It was like there was no defense," said Richardson, who broke his all-star game record of 37 points set last year. "But it was a lot of fun, very exciting."

Cook, who played for several NBA teams, most recently the Denver Nuggets, made 6 of 9 shots from three-point range en route to scoring 32 points. Shaw, a starting guard with the Boston Celtics last season, scored 31 points on 14 of 17 shooting.



Sarunas Marcinionis, the former Soviet star now in the NBA, and his Golden State Warriors ran into the Chicago Bulls and a 104-91 trouncing Saturday.

SIDELINES

Aoki Beats Mize by 1 in Japan Golf

KAIMONCHO, Japan (AP) — Isao Aoki birdied the 16th hole Sunday and won the \$714,000 World Open golf tournament by one shot over Larry Mize.

Aoki and Mize, the defending champion, each birdied the 13th and remained tied until the 18th. Aoki shot three-under-par 69 for the round, for a total of 274 on the 7,014-yard, par-72 Kaimon course of the Ibusuki Golf Club in southern Japan.

Mize shot 70, as did Graham Marsh of Australia, who finished third at 276. Mark Calcavecchia, the British Open champion, shot a 69 for 277 and was fourth, one shot ahead of T.C. Chen, who shot a 70. Third-round leader Hubert Green shot 75 and dropped to a sixth-place tie at 279.

Spanish Whitbread Sailer Hospitalized

PERTH, Australia (Combined Dispatches) — Crewman Rafael Riben of Barcelona was rushed to a hospital Sunday after spending 10 days with a multi-fractured ankle aboard the boat Fortuna Extra Lights in the Whitbread Round the World race.

Riben, 26, was one of two crewmen injured when a huge wave swept across the yacht 10 days ago. Doctors said they would decide whether to operate in Australia or fly him back to Spain.

The New Zealand ketch Staindager II — skippered by Peter Blake, the only man to have sailed in all five Whitbread races — claimed line honors Saturday after a close second leg of the race. It crossed the line 1 hour, 34 minutes ahead of two sloops, Rothmans of Britain and Merit of Switzerland.

(UPI, AP)

For the Record

Cuba beat Japan, 15-7, 16-14, Sunday and won the World Cup men's volleyball title with a 7-0 record, after winning the women's title two weeks ago. European champion Italy trounced the 1988 Olympic gold medal U.S. team, 15-7, 15-11, 15-6, and finished second with a 6-1 record. The Soviet Union finished third at 5-2.

Horikawa, an outsider from New Zealand, warded off a stiff challenge from Japan's Oguri Cap in the final furlong to win the Japan Cup horse race Sunday in Tokyo.

Diego Maradona has agreed to pay Napoli a \$21,000 fine for showing up late for the start of the Italian soccer season, team lawyers said. In return, management reportedly has withdrawn a civil suit asking Maradona for \$3.5 million in damages.

The New Zealand All Blacks became only the second team in rugby history to go through a British tour unbeaten when they defeated the Barbarians, 21-10, Saturday to end their 13-game tour.

Dexter Manley, admitting in public for the first time that he has a drug problem, said Saturday he will not dispute the indefinite suspension he received from the NFL.

(AP)

Quotable

● Gene Stallings, fired by the NFL Phoenix Cardinals, on his desire to remain a football coach: "I'm too young to retire and not wealthy enough, either."

(LAT)

For American in Japan, Tears and a Sumo Title

By Fred Hiatt

Washington Post Service

TOKYO — One does not often see a 496-pound man cry, but Yasokichi Konishiki did Sunday. Happily.

Konishiki, a Samoan-American born in Hawaii nearly 26 years ago, took up the ancient Japanese sport of sumo wrestling in 1982. And Sunday, in the port city of Fukuoka, after enduring anti-foreigner baying, poison pen letters, telephone death threats and an injured knee, the 225-kilogram wrestler won his first professional tournament.

Konishiki received a congratulatory message from President George Bush and a host of cash awards and gifts, including four tons of rice, a barrel of shiitake mushrooms, five thousand eels and a large silver statue of a Coca-Cola bottle. But the ultimate compliment came from Katsuyuki Futagoyama, the director-general of the Japan Sumo Association.

"He's a great wrestler now," Futagoyama, a former sumo star, told the Japan Broadcasting Co. "He's no longer a foreigner."

Indeed, it was a red-letter weekend for Americans in Japanese sports. A former Montreal Expo, Warren Cromartie, was named most valuable player of the Japanese Central League and a former Los Angeles Dodger, Ralph Bryant, was honored as the Pacific League MVP, the first

time that U.S. players have swept the baseball awards.

Still, it was Konishiki's triumph over adversity in the most Japanese of sports that captured Japan's attention.

Although the wrestler's sudden rise in the sport five years ago provoked a wave of xenophobia, his more recent troubles and his determination to overcome them seem to have won him acceptance as an honorary Japanese.

After his clinching bout Sunday, Konishiki, wearing only a black loincloth beneath his massive chest and belly, gave the obligatory television interview, in flawless Japanese, as an attendant combed his oiled hair back into the traditional topknot in preparation for the victory ceremony.

"I didn't want to cry, but I couldn't help it," he said. "It's like a dream. I'm really surprised myself. It's been a long time since I could fight like this."

Konishiki, whose real name is Salevaa Atisanoa, was a college-bound high school football player in Hawaii when Jesse Kuhaulua, a Hawaiian and former sumo wrestler, recruited him for sumo wrestling.

Kuhaulua, eventually became a Japanese citizen, but in 1972 he became the first, and until Sunday, only foreigner to win a sumo tournament.

To an outsider, sumo does not look difficult: two sparsely clad fat men colliding with a thud and then spending a few seconds trying to throw each other to the

ground or push each other out of the packed-sand ring.

Konishiki gained nearly 200 pounds on a diet of fish and rice stew, and then began climbing through the professional ranks with unprecedented speed to become the first foreign *ozeki*, or champion-ranked wrestler.

But Konishiki soon discovered that sumo is a test not only of bulk but of strength, speed, agility and, above all, mental toughness. As he began to succeed, he had to endure not only the normal indignities of the hierarchical, almost feudal sumo world, but also the panic of Japanese who believed a foreigner should never be champion.

"Anyone who can't take a baying probably doesn't have what it takes to succeed in sumo," Konishiki wrote in a Japanese magazine last year. "It's a lot more difficult than it looks."

Konishiki was considered sure to advance beyond *ozeki* to the top rank of *yokozuna*, or grand champion. But his climb stalled: one strong tournament would be followed by a poor performance.

"I keep hearing people say they don't want a foreigner to win, that I shouldn't be promoted to yokozuna since I only win by brute strength," wrote Konishiki, the largest sumo wrestler ever.

In September, he finished a tournament with a miserable record of five victories and 10 losses and was in danger of being stripped of his championship rank. So

when he practiced so hard through the fall and came roaring back this month, the sports press took notice.

"Restoration of the Monster of Hawaii," blared one "Grand Champion Konishiki" — Even Mike Tyson Would Be — said another. A new girlfriend, a 24-year-old Japanese model, had turned Konishiki around, it was reported.

On Friday, Konishiki won his most difficult bout, against The Wolf, Chiyonofuji, the tournament's reigning champion. Although Konishiki outweighs him by 200 pounds, Chiyonofuji had always turned Konishiki's bulk against him, sidestepping him and making the American look foolish as he crashed to the floor.

But this week, Konishiki simply built Chiyonofuji out of the ring. And when he dispatched the 400-pound Kotogame on Sunday in the same style, Konishiki clinched his victory.

If he wins the next tournament, in January, the experts said, he will become the first foreign yokozuna in history.

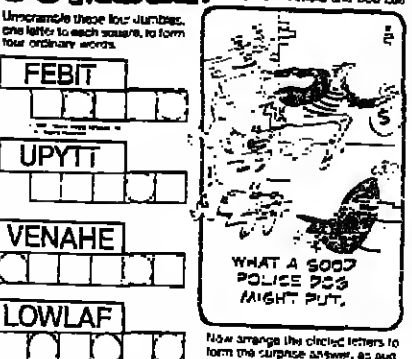
The crowd in the sumo hall in Fukuoka cheered wildly for his victory, and again when Mr. Bush's telegram was read in Japanese. The threats and insults and stop-Konishiki campaigns seemed, for now at least, forgotten.

"People liked Takamiyama because he became Japanese," said one young fan. "But people like Konishiki because he hung in there and did things his way."

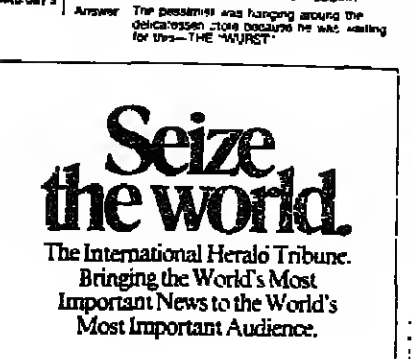
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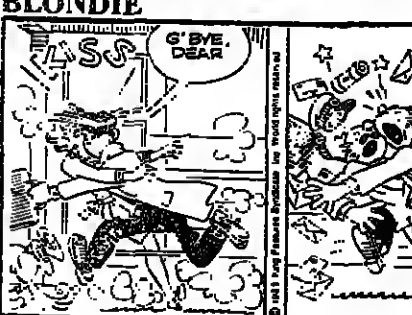
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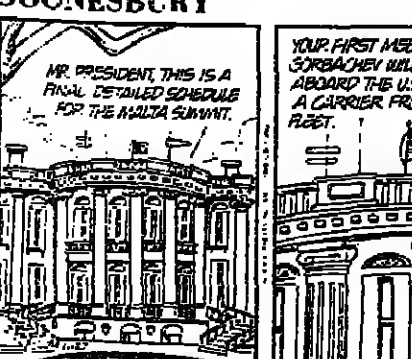
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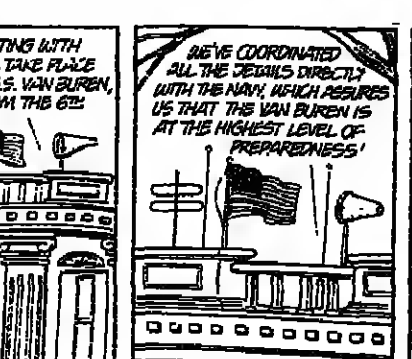
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MONDAY SPORTS

Michigan
Is Big 10
Champion

Compiled by Our Staff From Dispatches
It took No. 3 Michigan almost
forever to do it, but the Wolverines
beat Ohio State to win the Big Ten
title and a trip to the Rose Bowl to
face Southern California, the Pac-10
champion, on New Year's Day.
Todd Pate's interception of an
pass at the Michigan 41, with 2

COLLEGE FOOTBALL

minutes, 48 seconds to play and the
Buckeyes trailing by only 21-18,
ended an Ohio State comeback Satur-
day in Ann Arbor, Michigan.
The Wolverines then scored once
more and won the 86th game of the
92-year-old series, 28-18, before a
crowd of 106,137.

In winning their 10th game in a
row after an opening loss to Notre
Dame in Ann Arbor on Sept. 16,
the Wolverines were 8-0 in confer-
ence competition. Ohio State, 6-3
overall and 6-2 in the Big Ten,
finished third behind Illinois.

The big player for Michigan was
Leroy Hoard. The senior, a hand-
yman at halfback and fullback, re-
placed the team's leading ground
gainer, Tony Boles, who had arthro-
scopic knee surgery on Wednes-
day. Hoard made the most of his
last afternoon in Ann Arbor as he
drove ahead between the tackles for
152 yards and a touchdown.

His last rush was his longest, 40
yards to the Ohio State four as the
first quarter began. He hurt an
ankle on that play.

No. 8 Tennessee 31, Kentucky
18: Tony Thompson scored on a
one-yard run and Alvin Harper
caught a 22-yard touchdown pass
in the third quarter, rallying Ten-
nessee in Lexington, Kentucky.

No. 11 Illinois 63, Northwestern
14: Jeff George passed for 232
yards and three touchdowns during
the rout in Evanston, Illinois.

The Illinois turned three inter-
ceptions into touchdowns as they
scored on their last six possessions
in the first half for a 42-7 lead.

No. 13 Houston 40, No. 18 Texas
Tech 24: In Houston, Andre Ware
led a touchdown drive for 47
yards and four touchdowns.

One, to Emmanuel Hazard, set a
National Collegiate Athletic Associa-
tion season record of 18 for
touchdowns by one quarterback and
one receiver.

No. 22 Penn St. 16, No. 19 Pitt
13: Reserve quarterback Tom Bill
converted two long third down
plays, setting up Ray Taras's
game-winning, 20-yard field goal
with 13 seconds left in Pittsburgh.

No. 24 Hawaii 23, Oregon State
21: Defensive back Walter Briggs
recovered an Oregon State fumble
at his own one-yard line with 4:39
left and Hawaii then hung on to
beat the Beavers in Honolulu.

No. 25 Michigan St. 31, Wiscon-
sin 3: Blake Ezor scored three
touchdowns and surpassed 1,000
yards rushing for the second
straight season, leading Michigan
State in Madison, Wisconsin.

(NYT, AP, UPI)

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Miami Ends Top-Rated Notre Dame's Winning Streak, 27-10

By Sally Jenkins

Washington Post Service

MIAMI — Top-ranked Notre Dame's long pro-

cession of victories has ended in the upset of this

U.S. college football season.

The Fighting Irish, the defending national

champions, winners of 23 straight, were over-

whelmed, 27-10, by No. 7 Miami before a record

crowd of 81,634 Saturday night at the Orange Bowl.

The Irish, who with a powerful option offense

had run up an 11-0 record this season in a schedule

that included eight top 20 teams, were held out-

righted by the Hurricanes (10-1), a team in the midst of a difficult transition.

Miami's supremely recalcitrant defense, rated

No. 1 in the nation, made even the slightest gain

difficult. The Irish were limited to Billy Hackett's

22-yard field goal and linebacker Ned Bolcar's

touchdown on a 49-yard interception return in the

second period.

"It was a breakdown here, a breakdown there,

and we lost the game," Bolcar said.

"It really hurts to lose," said Notre Dame's

subdued coach, Lou Holtz. "It's been a while since

we have."

Miami complemented its savage defense with the

elegance of its passing, as junior quarterback Craig

Erickson, after a season of interceptions and boos,

threw scoring passes of 55 yards to Dale Dawkins

with four seconds left in the first quarter and of

five yards to Dawkins with 4:13 left in the third.

Stephen McGuire's five-yard run with 24 sec-

onds left in the half gave the Hurricanes a 17-10

lead and Carlos Huerta's first-quarter field goal of

35 yards and his 32-yarder with 1:44 to go got the

last and last points of the game.

Erickson completed 16 of 26 passes for 210

yards. And he directed what might have been the

most remarkable drive this season, from his seven-

yard line to the five-yard scoring pass to Dawkins.

It encompassed the first 10:47 of the third quarter,

a fourth-down conversion and six third-down con-

versions, one a scoring 44-yard pass for a first

down on third and 44 from the end zone.

"That was the big point of the game," he said.

The Hurricanes' first-year coach, Dennis Erick-

son, was euphoric. His face streaming with sweat,

he let out a great breath and said, "I tell you, I've

never been around a win like this."

Last year only Notre Dame's 31-30 victory pre-

vented Miami from winning a second straight

national championship, and the Hurricanes swore

revenge. They played with an unerring zeal and

the result was several great performances.

Linebacker Bernard Clark, for one, relentlessly

pursued quarterback Tony Rice, Notre Dame's

Heisman Trophy candidate, and returned an inter-

ception 50 yards to set up McGuire's touchdown.

Notre Dame was held to 248 yards in offense,

compared to its season average of 415. Rice, a

senior, suffered only his third loss as a starter. He

was held to 50 yards on 20 carries, completed just

seven of 15 passes for 106 yards, was sacked twice

and intercepted twice.

"I just didn't play well at all," he said.

Miami's victory was all the more impressive

since leading receiver Wes Carroll did not play

because of a separated shoulder, and starting cor-

nerbacks Kenny Berry (ankle) and Roland Smith

(knee) went out in the first half.

Miami drove to Huerta's field goal on its open-

ing series and shortly afterward Erickson threw

the 55-yard pass to Dawkins, with the quarterback

calling an audible on a blitz and throwing a tight

spiral over the middle for a 10-0 lead.

But his drive to open the second half was abso-

lutely killing.

It was more than the officially recorded 80

yards, as it began with a personal foul penalty and

Eric Jones's 23-yard sack of Erickson, putting

Miami in a seemingly impossible hole. But Erick-

son retreated to his end zone and hurled the 44-

yard to Randall Hill down on the Miami sideline.

The Hurricanes moved steadily from there, con-

verting four straight third downs — in all, they

were good on 11 of 17, to 2 of 10 for the Irish —

and on third and goal Erickson found Dawkins

over the middle and in the back of the end zone.

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